

WASHINGTON—AND THE SECURITIES MARKET ★

# *The* MAGAZINE Special Preview Issue PART 2 WALL STREET and BUSINESS ANALYST

JANUARY 19, 1957

85 CENTS

## WHICH INDUSTRIES OFFER BEST PROSPECTS FOR 1957?

By George W. Mathis

### *In This Issue:*

Aircraft — Airlines — Paper — Oil —  
Merchandising — Metals  
Rice — Farm & Railroad Equipment  
Textiles — Banks



### *Special Annual Re-appraisals*

Bank — Rail — Insurance and  
Publishing Shares

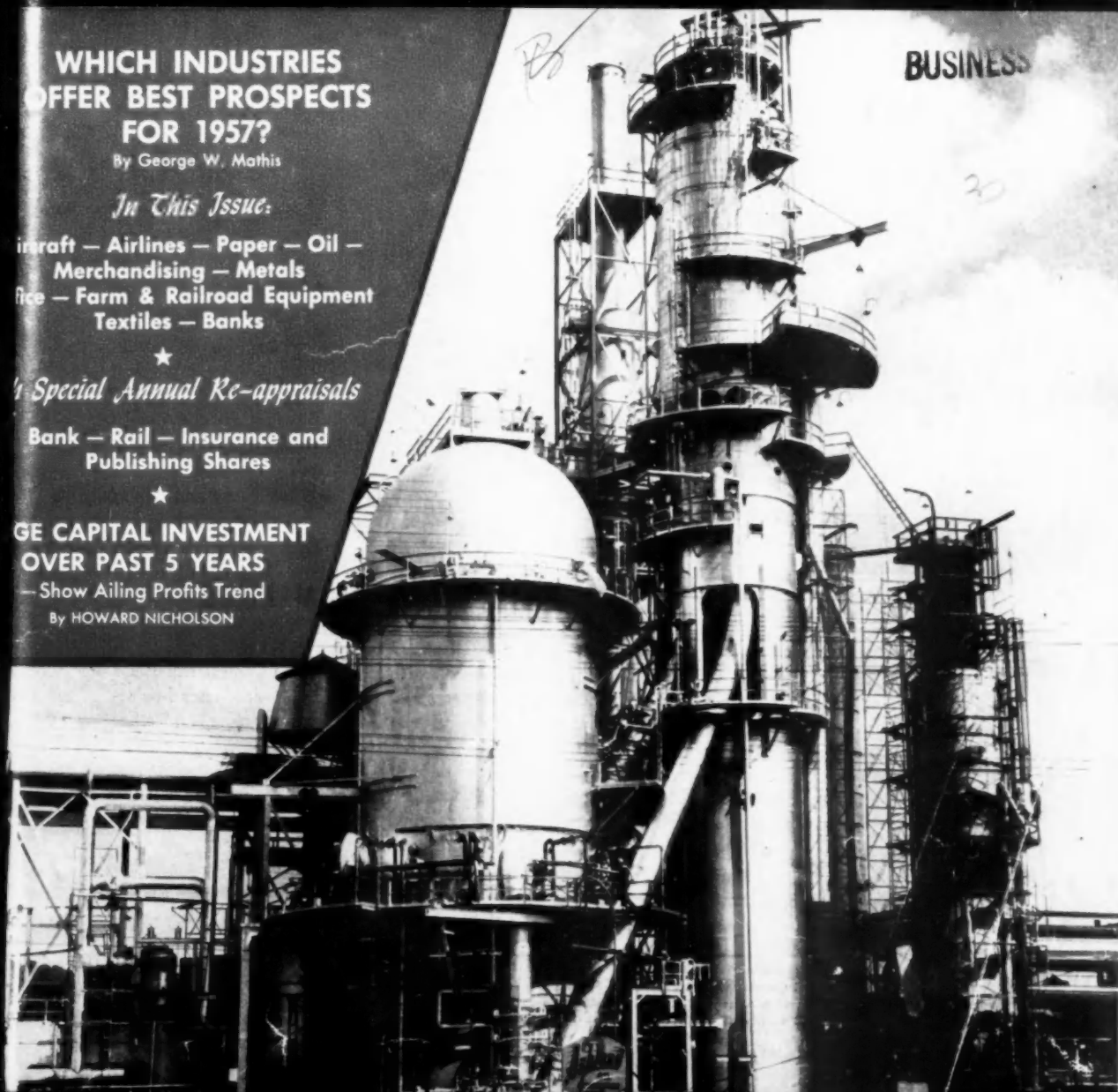


## GE CAPITAL INVESTMENT OVER PAST 5 YEARS

— Show Ailing Profits Trend

By HOWARD NICHOLSON

BUSINESS





## THIS LIVING CIRCLE STRENGTHENS THE AMERICAS

The Maya civilization, centuries ago, rose to great heights and then perished in the jungle. Why? Perhaps because this remarkable people relied on one crop—corn; perhaps because they lacked economic and cultural contact with others.

We of the Americas now realize that Interdependence is the key to our survival. Today not one, but many crops and products flow northward from Central America . . . coffee, hides, lumber, bananas,

cacao, abaca . . .

Dollars for these crops and Central America's goods and services flow southward. They buy refrigerators, telephones, cars, tractors, and other manufactured articles.

Thus we have a living circle of economics that strengthens the Americas, bringing the people of the American Republics closer and closer in bonds of friendship and better living.

## United Fruit Company

United Fruit Company has been serving the Americas usefully for 56 years—reclaiming wasteland, stamping out disease, developing human skills, helping by research, new techniques and transportation, to increase the production and sale of bananas, sugar and other crops, and expediting communications.



# THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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January 19, 1957

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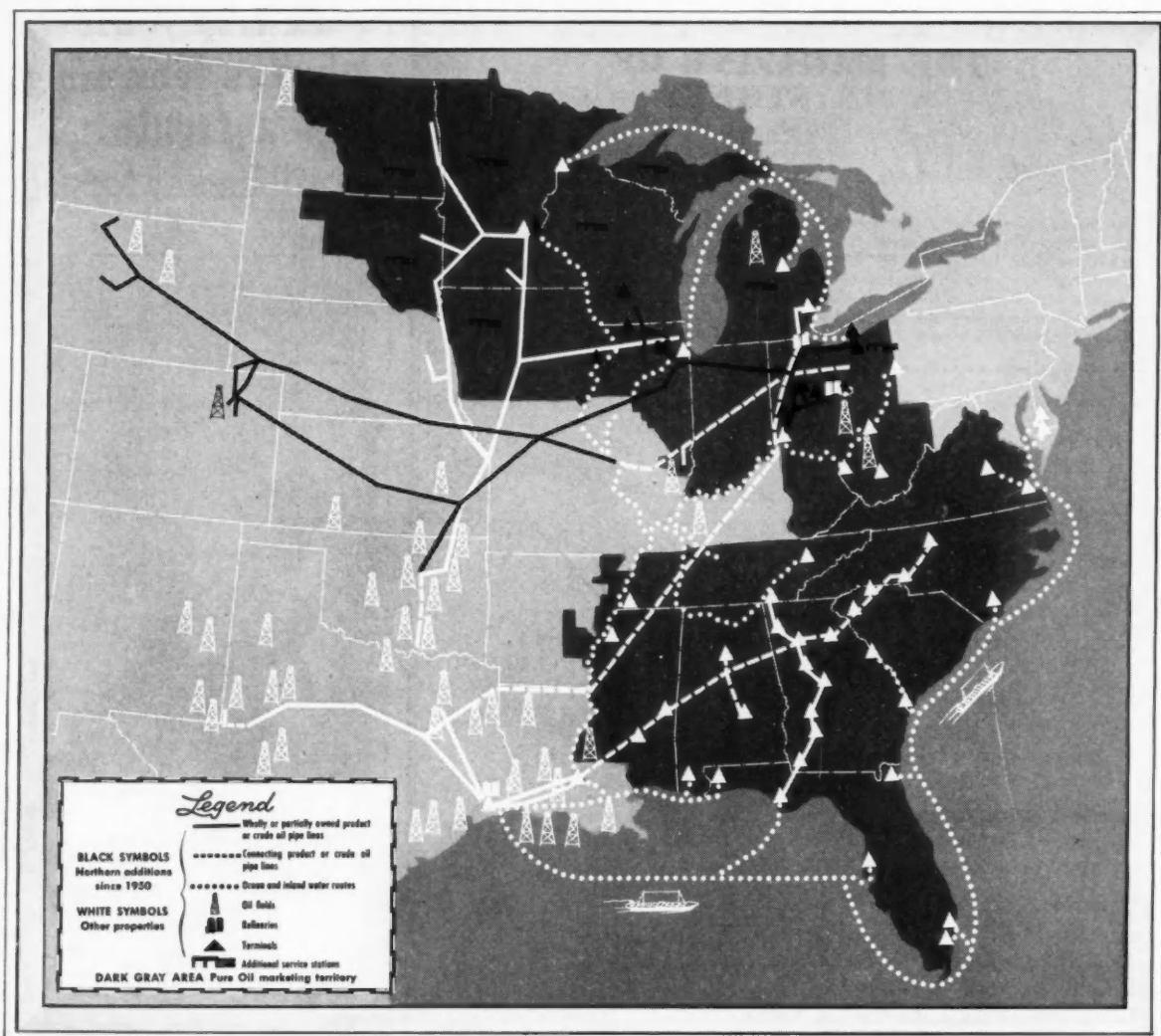


# Super Chief

... your carefree ride through  
the colorful Southwest Indian  
Country on the Super Chief...  
with the Turquoise Room,  
famous private dining room.  
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Chicago and Los Angeles.



R. T. Anderson, Gen'l Pass. Traffic Mgr.  
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## Look what's been added to the Pure Oil picture

Since 1950, Pure Oil has added the equivalent of a completely integrated oil company to the Northern segment of its operations.

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This remarkable growth brings greater efficiency and economy in a key area of PURE's operations. Matter of

fact, a great surge of growth and progress is being experienced throughout the entire Pure Oil operating area . . . expanded production, increased refinery capacity, added transportation facilities, more modern marketing outlets, continued product research and development.

These are the signs of a healthy, vigorous and progressive business . . . the planning of a forward-looking oil company.

**THE PURE OIL COMPANY**  
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Marketers

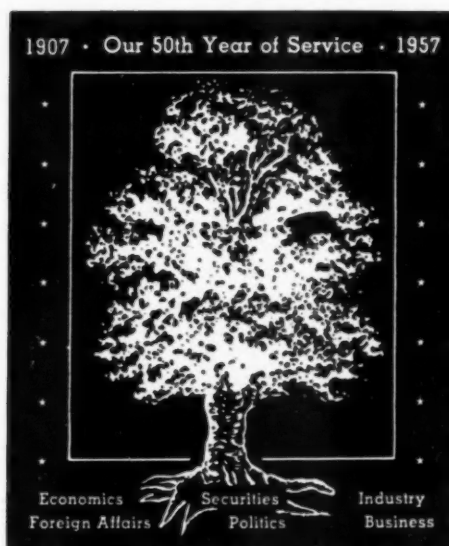
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Now, more than ever... Be sure with PURE



# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, Editor-Publisher



## The Trend of Events

**ECONOMIC REALITIES** . . . We were glad that President Eisenhower in his State Of the Union Message minced no words in singling out the peril to this country from an inflationary trend. His warning to labor and capital to exercise restraint was explicit — failing this, the Government would have to step in. While the President did not spell out what the Government would (or could) do, there is real menace in the wage-price-cost spiral — as we have pointed out again and again.

A corollary concern at this time is the easy-going optimism over the outlook in many quarters for business during 1957, based on government spending — at the Federal, state and community levels — for defense and public works.

Prosperity based on public spending is neither sound nor healthy — because it is paid by levies at the various levels or by adding to the government debt and additional taxation.

In the February issues we propose to deal with many of these vital issues, notably taxation, which could be reaching the peril point.

**SAVINGS BONDS** . . . As far back as September 15, 1956, we raised a question on whether the Series E and H savings bonds issued to the public by the Government had not lost a bit of their attraction. It was duly noted that for the first seven months of 1956 redemption of these bonds was running close to new sales.

It also was noted at the time that, with savings banks and building & loan associations pushing up their inter-

est rates, "the Government will have to revamp bond yields to compete on more even terms with other savings outlets."

Well, interest rates have been going up, with Government agencies even raising the ceiling to permit commercial banks to pay 3%. In New York, savings banks are expected to go presently to 3¼%.

Meanwhile, the Treasury has been coping with an accelerated decline in the fortunes of its savings bonds. Sales of E and H bonds for all 1956 dropped \$600 million below its goal of more than \$5.6 billion. Even worse, cash-ins over the last seven months of the year totaled \$100 million more than sales. That trend continued right up to the close of the year.

It would appear that the Treasury has little alternative but to revamp yields, for the competition for the saver's dollar is waxing. At the moment the Treasury is at a serious competitive disadvantage. As an example of its plight, the holder of an E bond gets little more than 1½% if he holds it for only a year and only 2½% if he still has the bond in its fifth year. To get a 3% return, he must hold the bond for its life of nine years and eight months. With commercial banks offering 3%, compounded quarterly, and even higher yields from savings banks imminent, the Treasury will have to move fast to reverse the trend.

The entire matter is of great consequence, not only to the Treasury and the bondholders, but to all Americans. For holdings of these Government savings bonds now amount to more than \$57 billion — more than 20% of the entire debt of the Government.

*We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This new department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss it! It starts on page 528.*

BUSINESS, FINANCIAL and INVESTMENT COUNSELLORS: 1907—"Our 50th Year of Service"—1957

# As I See It!

By CHARLES BENEDICT

## THE SERIOUSNESS OF RUSSIA'S ECONOMIC DEFICIENCIES

**P**aradoxically, while our entire attention has been concentrated on attempts to checkmate Russian strength in the Middle East, very little consideration has been given to her disastrous economic weakness. Yet this is a basic factor of first importance in mapping our plans for dealing with Russia today.

For a long time, the Kremlin has been able to conceal her fundamental economic weakness by withholding and manipulating figures—misrepresenting facts—and by artfully screening visitors admitted to her country—and by prohibiting direct access to her people, and to the sources of information that would have given us the answer to her position.

All the so-called “leaked” information was devious and confusing. She blinded the world to the true facts, hiding behind the facade of bristling guns, atomic arms and the loud blasts of her propaganda machine. By resorting to contradictory and unscrupulous techniques—with no holds barred—even the greatest statesmen in the world found the Kremlin's maneuvers confusing and unpredictable. Said Winston Churchill, “I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma.”

Only in the past year has the realization finally come that the Soviet Union seeks to win her goals by propaganda and subversion alone. We have learned her economy is too weak to stand a war with the United States—and their claim that their industrial growth was catching up with that of the United States was merely a pipe dream conjured up by their propaganda machine.

For 40 years the Russians worked to conceal their economic failure through their brilliant propaganda and subversive techniques—developed into an art during 80 years of battle with the Czarist secret police. The truth is that at least since the '20's the Utopia they pictured was merely a slogan these tough-minded revolutionaries cruelly and ruthlessly used to win converts and dedicated adherents among the people in every land—the idealists and the socially-minded intellectuals. By this means they betrayed millions of human beings.

### The Internationale in Reverse

Held down and enslaved by the secret police these many long years, the people of the Soviet Union and in the satellite countries—disillusioned and embittered—have been “waiting for the day.” The first sign of revolt came in East Germany, and was

swiftly put down. Then followed the bread riots in Posnan, which gradually spread to all of Poland and to Hungary, which felt the full brunt of Russia's mailed fist. But not before it exposed to the world the true picture of the Kremlin's gross economic mismanagement.

In fact, the failure of bureaucratic control of the economic and social life of the people has proven to be a colossal failure, not only in Russia, but everywhere. One has only to compare the progress of West Germany under free enterprise with the dire poverty of East Germany under Soviet domination. That, together with the low standard of living in Russia and the satellites, supplies a full and grim picture.

### The Colossal Hoax

From the very beginning the Soviet Government was not equipped to meet the demands of conducting the affairs of Russia following the Revolution. It lacked the economic and financial brains required to rebuild the country soundly. The new masters of Russia were revolutionary saboteurs pure and simple, and three generations have been sacrificed to their incompetence and bungling in managing the Russian economy.

As I wrote in the Sept. 26, 1936 issue of “THE MAGAZINE OF WALL STREET” after a visit to Russia,—“these revolutionary propagandists, without experience in economic and financial planning, or the conduct of government—instead of putting this nation of craftsmen to work, foolishly tried to swiftly industrialize them. This, although the workers had no understanding of mechanization.” Yet, if they had permitted the people to work out their own salvation, they might have succeeded because the Russians are a talented, flexible and hard working people.

Traveling into the country, enroute to collective farms, I found the roadsides littered with rusty industrial machinery, some of which had been sent by the United States only six months before. From 1917 to 1936—for 19 whole years—the Communist Government had failed in supplying their people with enough food and clothing, and no new housing had been built,—so that families lived in a single room and frequently doubled up. And these sad people were being exploited, in their dull lives—in the factories—and on the collective farms. In one year, 1935, 5 million kulaks had been starved to death because they failed to satisfy the greedy Communist Moloch.

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Conditions in Russia were terrible, and the government, faced with disaster due to their all-around failure, and with their substance wasted, found themselves confronted with an almost unsurmountable task of repairing the damage—living in the present—and planning for the future. And when the Communist masters found it hard to whip up the enthusiasm of a hopeless people, they resorted to forced labor. Thus slave labor became an implement of their economy.

This was definitely established during the World War II, when the Germans captured Russia's secret economic plan for 1941, — a plan that was given to the United States. It shows clearly that the use of slave labor is, or at least was, an integral part of the Soviet economy. A designated share of production in a number of economic sectors was specially assigned to the government agencies in charge of slave labor camps.

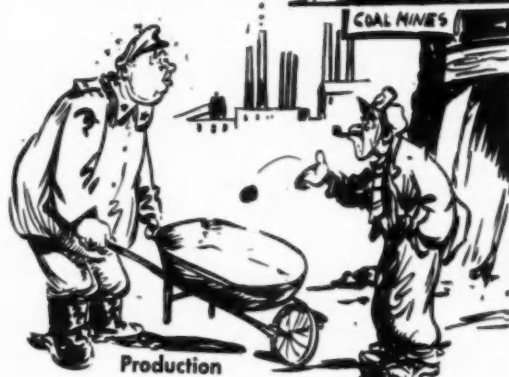
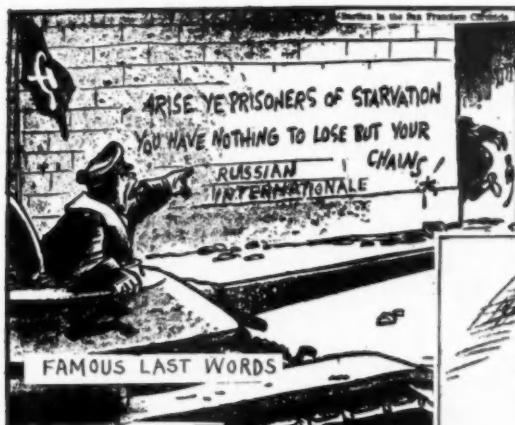
Yet, possessed of labor for free and raw materials they confiscated, or secured below cost from their satellites, the ineptitude of the top-level engineers of the Russian economy was so colossal that they were unable to fashion the economic weapon that they had planned to use against the Western democracies. No greater demonstration of their utter incompetence to cope with the situation can be shown.

And now, owing to the revolt, destruction and sabotage of recent months, Russia is bound to experience a serious setback that will make it impossible to fulfill her production target for 1956-57. And the general unrest that is spreading through Eastern Europe and Russia proper is sure to bring further unbalance and multiply the fears already existing in the top-level hierarchy—which is bound to stymie their efforts.

Already she has been unable to meet the financial demands of her satellites and has been obliged to sell her gold—which in 1956 amounted to 1 million ounces. The quantity was considerably less than the 4 million ounces sold in 1953, but the bulk of the recent sale was dumped on the Western gold market following the uprisings in Poland and Hungary. This has given rise to the belief in informed quarters that these sales had become necessary as a result of the latest East European developments and seems entirely plausible since, up to last October, all the Communist satellite countries were part of the ruble area system, which meant that any foreign

exchange earned by satellite countries from their exports to the Free World had to be made available to Moscow against ruble credits at an exchange rate determined by the Kremlin. In that way the system was similar to that of sterling bloc, in which Britain acts as the central banker, administering the foreign currencies of the entire area, with this difference: The sterling bloc is a voluntary arrangement between sovereign nations, all of which have a voice in the administration of the central foreign exchange reserve.

This, of course, is not the case with the ruble area system. Furthermore, the exchange rate of sterling reflects the true value of this currency, vis a vis



Providence Evening Bulletin, Friday, Dec. 28, 1956



"Rotting at the core."

the dollar, the mark, the franc, etc. The ruble, however, is highly over-valued, so that the satellite countries are being short-changed whenever they turn their foreign currency in for the ruble at Moscow's official rate of exchange.

According to reports, the satellites are demanding this system be abolished and Russia may well be forced to see it their way. This would deprive her of much of her regular foreign exchange income and may well be the reason she is currently buying large quantities of sterling on the Western world markets.

Russia's much-heralded aid for underdeveloped countries of the world has been seriously checked by events in Eastern Europe. Instead of milking these countries, as she has done for nearly a decade, she will have to

(Please turn to page 556)

# Washington—And The Securities Markets

The Administration's proposals and Congressional action probably will neither disturb nor excite investors. Prospects for business, earnings and dividends are not too good, not too bad. The market remains highly mixed, over-all movement narrow, profit-making opportunities reduced. We continue to recommend a conservative, selective policy.

By A. T. MILLER

**M**arket behavior so far in 1957 suggests that most investors are in a "wait-and-see" mood, thus feeling no strong urge either to enlarge or reduce their total holdings of common stocks. Of course, there has been hesitation, doubt, caution and highly mixed price tendencies among individual stocks for some months—footing up to limited fluctuation of, and no net progress by, the industrial and utility averages since last summer; and, in the case of rails, since last spring.

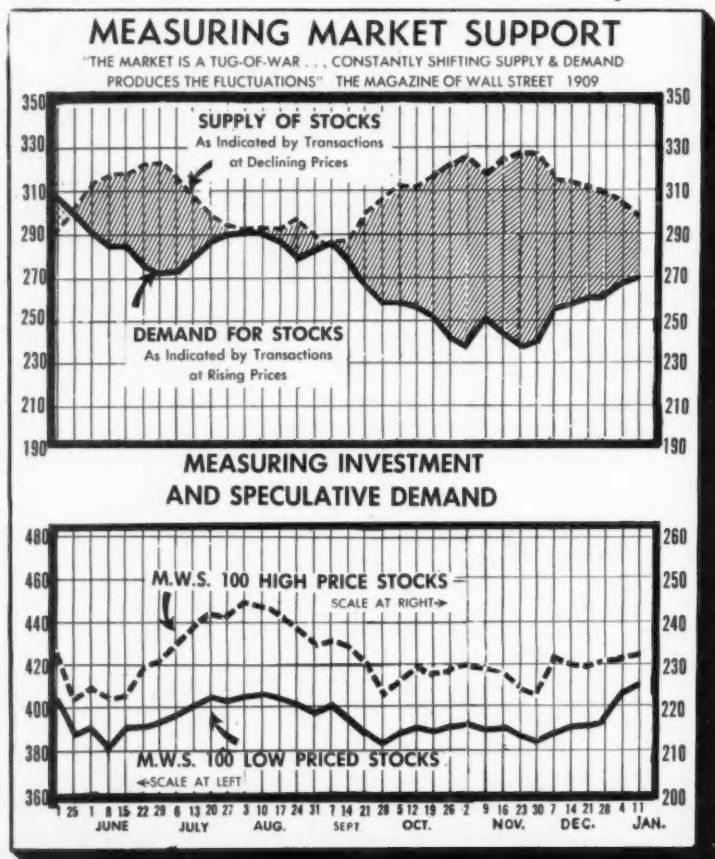
So there is nothing new in the present mood, excepting some shifts in emphasis and in the uncertainties or developments with which investors are immediately preoccupied. As is usual at this season, eyes are focused to a considerable extent on

Washington: On the Administration's programs outlined, or to be outlined, in the President's messages to Congress; and especially on the budget. In this sphere, however, surprises of market importance appear improbable. At least for the present, with startling new developments absent, the market has swept foreign uncertainties under the rug. There is less interest in early 1957 business activity, more in second-quarter and second-half possibilities. There is conjecture about Federal Reserve credit policy, the scope of possible further nearby rise in bond yields and a possible let-up of pressure on the bond market after spring. There is a mixture of mild hope and skepticism as regards general prospects for corporate earnings both over the medium term and for the full year. There is debate on the scope of 1957 shrinkage in housing activity on the one hand, the degree of improvement in automobile sales on the other hand.

## The Immediate Picture

Backing and filling in a narrow range in the first 1957 fortnight, the industrial average receded slightly from its December 31 rally high of 499.47—which compares with 1956 bull-market top of 521.05 and late-November reaction low of 466.10—in reflection of some profit-taking, which was deferred beyond the turn of the year for tax reasons, but with this pressure cushioned by the usual early January reinvestment demand. The pattern so far remains different from that of a year ago, when the year-end upturn culminated also in the final training session and was immediately followed by a 26-point dip to January 23. Reflecting the end of tax-selling pressure, more individual stocks have gained so far this year than have lost ground; and more have recorded new 1956-1957 highs than new lows, although the numerical margin on both counts is relatively small.

The rail average moved moderately higher over the last fortnight, reflecting a relatively strong technical position; but it remains a little under its December 7 rally high of 158.38. The 1956



top was 181.23 last May, the summer recovery high was 171.37 last July, and the late-November reaction low was 150.44. A year ago the average fell over 12 points to January 23 from an early-December high. Creeping strength has been maintained by the utility average since about mid-December in the face of further rise in bond yields, reflecting continuing good demand for natural-gas stocks and mild betterment in some electric-power issues. The bull-market top was 71.17 last August, the subsequent reaction low 64.93 on October 1, the recent best rally level 69.62 at last week's close.

The features of the present money market are sharp seasonal reduction in bank loans and in currency circulation, tending to ease upward pressure on short-term interest rates, despite mopping-up open-market operations by the Federal Reserve; and, on the other hand, a heavy concentration of new bond offerings by corporations, states and municipalities at the highest interest rates in a great many years. Most such issues are being readily absorbed—at a price, and a very stiff price. Evidently the trouble with the bond market is not so much the shortage of investible long-term funds as the huge supply of new offerings, but the end result is a buyers' market.

To illustrate: The Pacific Power & Light Co. sold first-mortgage bonds recently at an interest cost of 5.25%, whereas the same company is paying 3.59% on like bonds sold as recently as last October; and it has just marketed a new issue of preferred stock at a 6.16% dividend rate. These figures compare with a current cash yield around 4.1% on the Dow industrial average.

Thus, it is easy to see why over-all institutional demand for common stocks has been curtailed and will remain so until available yields become more attractive relative to bond yields; and why there is plausibility in unofficial reports that some of the recent secondary offerings of stocks have been for the account of collegiate or other endowment funds electing to shift a portion of commitments to bonds.

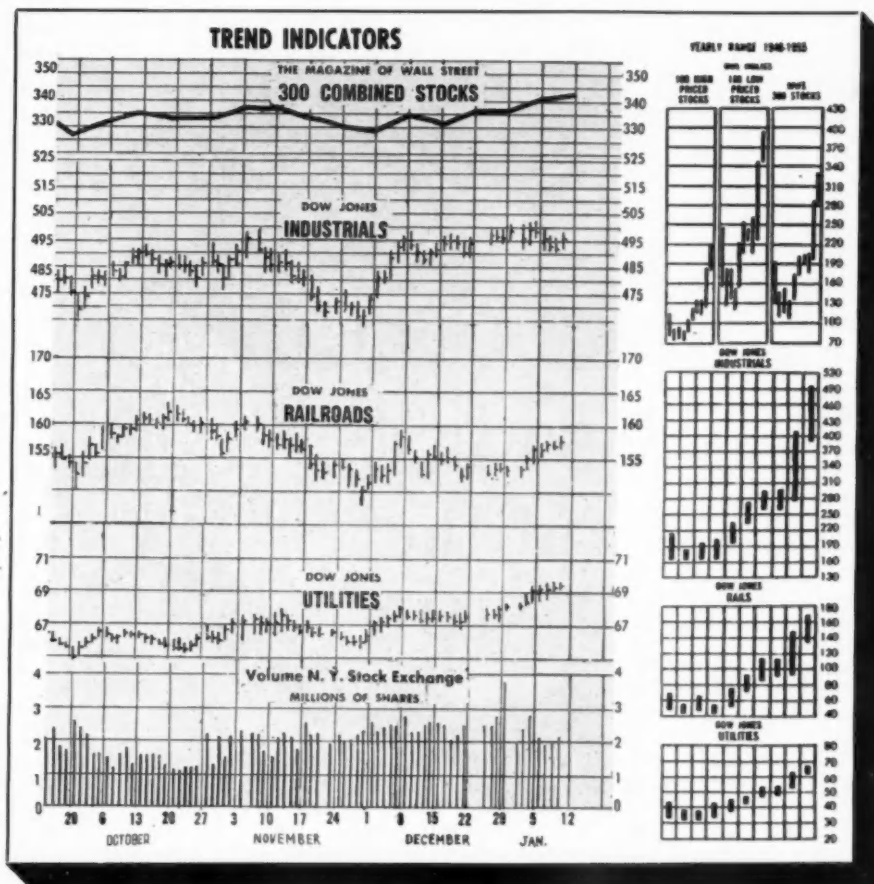
#### The Odds Lengthen

Of course, most stock-minded individual investors remain allergic to bonds for good reasons; and are not moving into them either from stocks or in employment of new money. Nevertheless, the over-all change in institutional-fund stock policy is enough alone to take considerable "oomph" out of the market, since individuals can no longer get a "free ride"

merely by buying institutional-grade equities.

Present indications suggest no more than small 1957 gains at best in business activity, total corporate earnings and dividends—gains too small to promise a general market rise above the 1956 highs under expected money-market conditions, even though it seems likely that the rise in bond yields will level out by spring or not long thereafter. All of this implies that the buying opportunities—unless and until favored stocks decline materially—will be mainly among special-situation secondary stocks. Meanwhile, most stocks with well-defined prospects for good 1957 earnings gains are "up there" and, in the case of most depressed issues, a basis for important improvement can not be seen.

We look for no wide market "bust," but figure that profit-making opportunities will be relatively scarce as long as average stock prices hold in the range marked out since last summer. That makes the selection problem more difficult, and requires both close discrimination and patience in the management of portfolios. In terms of annual advances and declines by individual stocks, here is how the "odds" have been running: In 1954, better than 10 to 1 in favor of the stock buyer; in 1955, roughly 2½ to 1; but in 1956 nearly 2 to 1 against the profit-seeker. It could be different later on, but at this point the mathematical odds appear to have become even more formidable. We suggest that you continue at present to temper your investment hopes with caution.—Monday, January 14.





By OLIVER NORTON

**P**resident Eisenhower's State Of the Union Message is penned in the confident strokes of a man who has read into last November's election results a mandate to continue a well-defined program—not find a new one.

The blueprint he submitted to the Congress is to be distinguished from the hard-and-fast program of either party. Yet it combines features of both. By a process of amalgamation, the President has set forth a course of legislative action which must be tempting to Democrats as well as to members of the President's party. The design is one which de-emphasizes political label and responsibility to partisan causes and basically bids members of the Congress to keep their campaign promises.

#### Progress Sought On Many Fronts

The President calls for progress on many fronts. But he asks that the "forward look" not be achieved at the cost of departing from hard-core legislative practice.

Into the message all will read a reiteration of the demand for sound money and sound Government policy; for courageous action without the risk of hazardous adventure; for pay as you go-plus—the plus being another fling at debt reduction.

Any lingering hope for White House-inspired reduction is dissipated by those things which are said and by those left unsaid. The message boldly sets out the hard facts of tax-money husbandry rather than indulging in the double-talk of promises, half-

promises or "ifs" on the subject of tax relief.

Thus, the man who would not woo the electorate with tax pie in the sky during the Presidential election last year once more demonstrated his conservatism with the people's money—there is to be no special favoritism at the cost of fiscal integrity to an entire nation.

The Chief Executive analyzed the nation's foundation as secure: Rich in a wide variety of natural resources and industrial skills; productive beyond our own needs in foodstuffs and industrial product; high in wealth, culture and morals; with initiative and willingness to venture capital in free enterprise, and

strong economically throughout.

#### Time to Take Inventory

But a prosperous period, he counseled, is a time for taking stock, developing programs of conservation of resources and Government disbursement. In this connection, the aid of Congress was sought—obviously, a firm line against tax cuts. Inflation, Congress was told, is a thief which can, among other things, rob the individual of his pension and Social Security.

In the war against inflation, he urged management and labor to enlist. Business was told to be vigilant to hold down prices and profits to reasonable levels of return of investment; labor was warned that increases in wages and other labor benefits must be "reasonably related" to improvements in productivity. And there was an oblique reference to automation: Wage negotiations should also take cognizance of the right of the public generally to share in the benefits of improvements in technology.

#### Farm Message Yet to Come

Agriculture was touched upon briefly by Mr. Eisenhower for the purpose of placing on record the Administration's attitude that the present tools are workable. Then, a special message on the subject was promised.

On the subject of power, the observations followed

prediction. In summation: "Through partnership of Federal, state and local authorities in these vast projects we can obtain the economy and efficiency of development and operation that springs from a lively sense of local responsibility."

The alternatives, he warned, are costly and stifling bureaucracy, and a dangerous degree of centralized control over national life.

Civil-rights issue was dealt with, the President pleading for a positive approach for improved school facilities to "benefit children of all races throughout the country." The program itself was pronounced in a listing of things asked last year but not voted: A bi-partisan commission to investigate asserted violations of civil rights; a civil-rights division in the Department of Justice; statutes to aid in enforcing voting rights, and laws to permit the Government to sue in civil courts for relief in civil-rights cases.

Turning to the economy, Congress was told that planning for stable growth would be encouraged to conduct a broad national inquiry into the nature, performance and adequacy of the national financial system, both in terms of its direct service to the economy and in terms of its function as the mechanism through which monetary and credit policy takes effect.

In addition to the message on agriculture, separate documents were promised later (from the White House or individual agencies) on financial affairs; defense; Justice Department; world trade; increased postal rates; natural resources; labor laws, including labor-management; health, education and welfare; atomic energy; public works, and Government competition with private enterprise.

#### On the Foreign Front

President Eisenhower took only passing notice in his State Of the Union Message of charges that alliances with friendly nations have been bogging down. He said "The strains upon them have been, indeed, severe. Despite these strains, our regional alliances have proved durable and strong, and dire predictions of their disintegration have proved completely false."

Full membership in the Organization for Trade Cooperation was cited as a remedial step and a move toward a peaceful world. Sharing the peaceful benefits of atomic energy through participation in an international atomic energy agency was another.

The President makes it clear that the present rate of taxation must unite with continued good business if essentials are to be funded next year. And he says, inferentially, that if there is to be expense

added, the alternatives are more taxes or an operating deficit.

Not only in his discussion of taxation but also in many other specifics, and in the general spirit, the message is unlike most that have gone to Capitol Hill in the past. Platitudes are few. The document is in the spirit and tone of a classroom lecture; in fact, it was delivered by Mr. Eisenhower in the manner of an outline of advanced economics. And it was the briefest State Message in recent years.

The explanation is clear and perhaps prophetic: It is manifest that the President is taking full advantage of the circumstance that he can not succeed himself in office; therefore, that he can neither be aided, nor dissuaded, by Congress. Quite obviously, he is weighing wisely the fact that his party is not riding on his coat-tails toward 1960 and that he is a free agent.

#### Objectives, Not Approaches, Stressed

Over-all impression, plainly, is that the President is putting it up to Congress to organize behind Government principles, rather than political parties or their leaders. In every passage the warning is implicit that playing party politics—either side's—could prove a dangerous and costly game.

In each of the four State Of the Union Messages which preceded, the President talked over the head of Congress, direct to the people. This one seems calculated to put Capitol Hill in even more direct partnership with the voters in working out the national salvation. Yet there is no ukase that the methods, the implementation, must be as dictated from the Executive Mansion. It is noteworthy that ultimate objectives, rather than approaches, are stressed. He does not covet the prerogatives of the Congressional committees, or of the Houses of Congress. The word "must" is not to be found anywhere as a demand of priority.

There were echoes of the special message on Middle East problems running through sections dealing with defense, foreign affairs and finance. Wisely, there was no attempt to gloss over any aspect of the world conditions, there or elsewhere. He translates the happenings of recent weeks and months into warnings which a prudent nation must heed; signals not only to keep our powder dry, but also to inventory its quality, readiness and fast transportability. Despite the flow of Pentagon talk the President makes it clear that the goals cannot be accomplished by shifting emphasis. It might cost much more money, mean higher defense budgets. And he has told Congress to prepare to spend, but not

(Please turn to next page)

This fifth State Of the Union message by President Eisenhower was in keeping with the character of the man. It was restrained, as were those had had gone before. Again, it was far from a partisan pep talk to rally all good Republicans to the aid of their party. There is this difference from the Message of 1956: Then the President probably had less to do with the preparation, arrangement, distribution of emphasis and general detail than was the case with the three that went before and the one delivered this year. The spadework for the Message of 1956 was done during his recuperation from a serious illness. He was a more robust man this year.



to over-spend unproductively.

The President had left no doubt that he will back Defense Secretary Charles E. Wilson's judgment in procurement matters against the contrary views of Congress. And there are sharply conflicting viewpoints that must be contended with as the 1957-1958 budget takes form. He appears to have appraised correctly the Capitol Hill attitude which adds up to this: "The Pentagon

can have all the money it requires, provided we hold the string and can say how it will be spent."

He has made his position clear. He knows that conflict is ahead over reduced air power, reduced ground forces, increased planning for missiles. He sees no need to labor the point he made last spring: An appropriation isn't a limitation. If X millions of dollars are earmarked by Congress

for plane procurement, the money may be used by the Pentagon for missiles or other striking power. Although the President made the point before, Congress did not respond. The emergency that spawned the debate passed. But there will be locked horns on it this year and legal rulings will follow. He is performing in the manner of one who is buttressed in his stand by advance "declarations." (Please turn to page 557)

## The Eisenhower-Dulles-Acheson Foreign Policy

We include Dean Acheson advisedly, because his criticism of the Middle East policy enunciated by the President, is like the pot calling the kettle black, because when in office Mr. Acheson did not do any better. As a matter of fact, we are today suffering from a continuation of the futile diplomacy which caused us to lose China and brought on the war in Korea.

It seems that we still have no thought-out policy in the Middle East (or anywhere else for that matter) — although Lenin's blueprint for conquest of the West distinctly said "the road to Paris lies through Asia." We seem to have thought that this Number One Communist merely was sounding off.

At any rate, the mistakes made in dealing with the situation as far back as Yalta enabled Russia to establish herself in Manchuria — converting the great Chinese mainland to Communism — and, further, we failed to get a settlement that would have solved the problems in the Middle East. The Eisenhower Administration inherited this fait accompli and is still struggling with it today.

It seems that we have not yet learned the lessons from the mistakes made, but have continued to conduct our affairs without any real policy, despite one blow after another dealt us by the Soviet Union.

The President's message on the Middle East was so nebulous as to be terribly disappointing. It did not contain anything really new. It had no teeth for, when analyzed, it was surrounded with provisions that made it impossible for anybody to know exactly what had to take place before the United States took any action militarily.

Moreover, there is very little possibility that Russia will resort to direct armed aggression — for having been so successful in infiltration and subversion she is bound to continue to use those tactics — and the message failed to tell us what steps we would take, if any, under such circumstances.

The President's plan simply is not geared to cope with the Kremlin's strategy. This was made painfully clear when Secretary of State Dulles went before Congress in support of the Eisenhower plan. He readily admitted, under questioning, that this Administration would accept national communism in the Mideast "as we have in Yugoslavia."

In the light of what has taken place in Egypt and in the Arab world generally, and the extent of Russian infiltration in that area, it seems incomprehensible that the United States at this late date still fails to see the danger of Communizing the Middle East, regardless of what type of Communism it is.

Moreover, it ignores the fact that these backward countries, with their millions of illiterate people still on a subsistence level, can readily come under the sway of the Kremlin. This would enable the Communist conspiracy to attain its major political goal (it needs neither the oil nor land). It would place Russia in a strategic position in control of the greatest oil reserves in the world, which would put the European land mass at the mercy of Moscow and alter the balance of power in the world decisively in favor of the enemy. But that is not all — the Kremlin also would be in a position to menace the various countries in the Afro-Asian bloc at will.

We therefore wonder whether Russia will consider the President's Mideast proposal to be a warning, or believe that the status quo is sure to prevail and that they can go ahead with their nefarious plans to conquer the world.

No wonder Britain, France and Israel are worried and distrust our motives. The pendulum of policy in our country the last four years has swung from "massive retaliation" to the brink of war and even to pure pacifism. The people of this country who have already spent more than \$50 billion since the end of World War II in support of the State department have suffered one shock of disillusionment after another, and have lost confidence in the policy that demands such sacrifices without the benefits they should bring. There appears to be a growing awareness of the fact that wherever we have spelled out our purposes, and stood firm, we have carried the day—in Iran, in Berlin, in Greece and Turkey, in Western Europe, on Formosa and elsewhere. Yet we continue to temporize.

We have "stooped to conquer" influence with the Nassers and have played the game of the Arabs against the interests of our friends. Now, watch that spurious influence evaporate when we fail to meet their demands for more and more money, for it is idle to suppose that in the bitter atmosphere now prevailing over the Middle East our largesse would influence Nasser toward an equitable adjustment on the Suez Canal, with justice for Britain and France — or bring peace between the Arab states and Israel — so long as Russia can influence Nasser's decision.

The people of this country, even the man in the street, have been way ahead of the State Department in understanding the situation abroad—and we hope that Congress will act with courage and a high sense of duty in seeing that a sound foreign policy is developed out of the rather intangible start that President Eisenhower's message has made.

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View of architect's concept of new Chase Manhattan Bank building and plaza as it is to appear from the south. Pine Street is in foreground, William Street to right of plaza. At left of new building is model of present head office of Chase Manhattan at 18-20 Pine Street.

**\$121 Million**

Bet on

**America's  
Future**

By

**Chase  
Manhattan**

By JOSEPH C. POTTER

**B**ankers are, by nature, conservative and practical folk, for their experience has taught them to avoid the dangers of star-gazing.

Thus the demands of the modern age, the tremendous growth and expansion in our country and around the world, have necessarily produced bankers with a broader perspective and a forward slant to their thinking intensively along wider horizons.

The men who guide the destinies of The Chase Manhattan Bank are liberally endowed with aggressive qualities, blended with foresight and enterprise in a big way. Not unmindful of the record-long boom this country is enjoying, nor the built-in inflation that besets us, they are thinking ahead confidently.

A token of this confidence is the \$121 million "bet" they are placing on the continuing economic growth of America — and the enterprise of the Chase Manhattan Bank.

#### **New Tower in the Skyline**

They have already spent \$16 million to acquire and develop a block-long area in the Wall Street district. On that land and the block to the south they are undertaking a real estate venture that

dwarfs anything New York City has seen since the Rockefellers built Radio City a generation ago. The towering building and plaza will cover a two-block site bounded by Nassau, Liberty, William and Pine Streets — but 18 Pine Street will remain untouched since it was sold by Chase Manhattan last year to Chemical Corn Exchange Bank.

Construction costs have been estimated at \$94 million. Another \$11 million will be expended for the furnishings and special facilities of the structure.

This new head-office building and plaza, adjoining Manhattan's present headquarters in the Wall Street district, will tower 800 feet and 60 stories above the city. It will add another giant to an area that is world-famed for its impressive skyscraper skyline. For sheer height, it will be in the same league with the classic Woolworth Building, which also is 60 stories high; neighboring 60 Wall Tower, which has 66 floors, and Bank of Manhattan at 40 Wall, which tops them all with 71 stories.

Yet this venture will be different from anything that has gone before. Chase Manhattan's downtown version of Radio City will be set in a two and a half-acre open plaza to afford a maximum of light and air. Exterior of the building, following the uptown vogue, will be glass and metal.

#### Rockefellers and Real Estate

The Rockefeller family long has been closely associated with the Chase. David Rockefeller is today executive vice-president of Chase Manhattan. Winthrop W. Aldrich, who was president of Chase National Bank for many years, is a brother-in-law of John D. Rockefeller, Jr. And it was the Rockefellers, with their strong penchant for real estate development, who backed the now world famous Radio City venture, when this country was in the trough of a depression, while the Wall Street development comes at what would seem to be a highly advanced stage of a protracted boom.

Although imposing, the Chase Manhattan's new building project will not be nearly so grandiose as the Radio City enterprise. Moreover, it will be, in a large part, tenanted by the bank to provide urgently needed space, with ample room for expanding the head-office departments (now spread through nine buildings of the financial district) and provide the great advantage of having these departments all under one roof.

With the total floor area of the project approximating 2,250,000 square feet, the remaining space will be rented.

Title to this property will be held by a wholly-owned real estate subsidiary organized for that purpose—and it is planned that a \$60 million mortgage

### Chase: 1877-1957

*Following is the first statement published by Chase National Bank:*

(December 27, 1877)

RESOURCES	
Cash and due from banks .....	\$ 243,470.07
Loans and discounts .....	652,898.26
U. S. Government securities .....	134,382.22
Furniture and fixtures .....	1,780.43
Redemption fund—U. S. Treas. ....	5,625.00
Other assets .....	3,853.27
	<b>\$1,042,009.25</b>
LIABILITIES	
Capital .....	\$ 300,000.00
Undivided profits .....	8,072.51
Deposits .....	621,436.74
Circulating notes .....	112,500.00
	<b>\$1,042,009.25</b>

on the land and building will be placed with an institutional investor. A substantial part of the cost of the project, which will take about five years to complete, will be offset by sales, some already consummated, of properties which previously have housed the bank's head-office activities.

It is clear that this gigantic real estate project is a symbol of the growth that the directors expect from the Chase Manhattan Bank consolidation, which will enable the bank to operate under the original New York State charter — of almost unlimited scope — granted to Aaron Burr back in the 18th Century.

#### The 1799 Manhattan Charter A Basis for This Ambitious Venture

It is significant that the Chase relinquished its own banking charter and today operates under the broad-gauge charter issued on April 2, 1799 to The Manhattan Company by New York State. This charter authorized the company to supply the community with pure and wholesome water — but The Manhattan Company, as it was originally known, did not receive a Banking charter per se, but a charter of fabulous scope, enabling it to engage in business of all kinds. It stated, in part:

*"... it shall be lawful for the said company to employ all such surplus capital, as may belong or accrue to the said company in the purchase of public or other stock, or in any other moneyed transactions or operations not inconsistent with the Constitution and laws of this State or of the United States for the sole benefit of the company."*

While the people at Manhattan retained an interest in water for many years (they helped finance the Erie Canal project), they opened a banking office at 40 Wall Street just five months after receiving the unusual document from the authorities.

#### History of the Chase Bank

It was not until 78 years later that Chase opened its doors at 114 Broadway, starting with capital of \$300,000 (Manhattan started with \$2 million). It was named after Salmon P. Chase, Secretary of the Treasury under Lincoln.

Indeed, long before it became it entwined with Manhattan, Chase was a great institution and was, for a time, rated as the largest bank in the world. It attained stature back in 1930 when directors of Chase, Equitable Trust Co. and Interstate Trust Co. voted to approve a consolidation of the three institutions. Under the name and charter of Chase National Bank, the surviving entity had resources in excess of \$2.8 billion.

In those days San Francisco's Bank of Italy (the present-day Bank of America) ranked eleventh and

National City Bank of New York now (First National City) was in second place.

The new bank, growing out of the merger of Chase and Manhattan two years ago, united two of the oldest and largest commercial banks in the country. They had similar characteristics of management, personnel and operational practices. With a wide diversity of branch sites and customer groups, the merger (a trend in banking, no less than in industry) enables the new entity to keep full pace with the expanding economy—and carry on a business that is nation-wide and world-wide in scope.

The bank occupies an outstanding position as a lender to and depository for business and finance. Its loans to commerce and industry are among the largest in dollar volume of any bank in the country. Some 3,900 banks, doing business in almost every county of the United States, maintain deposit accounts with Chase Manhattan.

Over the past decade the Chase Bank has grown to one of the greatest institutions in our country and we can expect the strong spirit of enterprise that pervades the institution to branch out in a number of directions.

### Quest for Savings Accounts

It is already seeking to bolster its lag in the number of savings accounts. It is now determined to close the gap on the strength of the new limit on interest for savings accounts authorized in December by the Federal Reserve Board together with the Federal Deposit Insurance Corp. They raised the ceiling on time deposits to 3% from 2.5%.

Only a matter of hours after this important decision, the Chase pushed its rate up to 3% on accounts up to \$10,000 while continuing to pay the old 2.5% on accounts from \$10,000 to \$25,000. However, it is difficult to believe other N. Y. banks will fail to meet this.

Important as are its moves to boost the number of savings depositors, Chase Manhattan (like the other banks) may be sharply stimulated from the lowering of the legal barriers that have kept banks within their city limits.

The trend toward suburban living (and manufacturing, too) has, of course, bitten deeply into the commerce of big cities. Retailers have made the trek to Suburbia, but the banks were stymied by Federal and State laws from setting up shop alongside the old customer who had moved to greener pastures. A woman who handles the household budget isn't likely to open a savings account in New York

City when she can bank at a drive-in a few blocks from her suburban home. The same goes for the thousands of merchants and small business organizations that have sprung up in Suburbia.

However, the Bank Holding Company Act, passed by Congress last May, could change all that. Under Federal Reserve Board regulations, a bank holding company may now, with consent of the Fed, acquire banks anywhere in a state.

State-wide branch-banking thus beckons to the big banks of New York and other metropolitan centers. First National City Bank already has formulated plans, in conjunction with a big Westchester County bank, to form a bank holding company in this area, which is probably one of the richest counties in the country.

John J. McCloy, chairman of Chase Manhattan, is no less desirous than First National City of breaking the ancient municipal boundaries that have hobbled urban banks. But Mr. McCloy would follow a different road to attain his objective. He is unenthusiastic about the holding-company device, and would prefer to operate as a bank with branches. Legislation combining New York City, Westchester and Nassau County (adjoining the city on the Long Island side) would find Mr. McCloy active in that territory, as he views that sprawling area as "the true economic boundaries of New York City".

Yet, no matter which of the two roads they take, the Big City bankers are certain to run into stern opposition from public officials and many small-town bankers. The First National City Bank move already has stirred up a controversy that has included contentions that the move of the big banks to expand may result in the disappearance of small independent banks around the country.

Chase Manhattan has shared importantly in the post-war growth of the economy. Net operating earnings of the bank in 1955, the initial period of merged operations, exceeded any amount previously realized by Chase and Bank of the Manhattan Company.

### Investment Values of Chase Manhattan

Net operating earnings for 1955 rose to \$42,303,000, an increase of 8.4% from the \$39,032,000 earned by Chase and Manhattan combined in 1954. Based on the increased capitalization growing out of the financing in late 1956, net operating earnings for 1955 were equal to \$3.25 a share.

For 1956 the record was even better. Net operating income rose to \$49,213,000, or \$3.78 a share. (Please turn to page 547)

### Comparative Balance Sheet Items

	December 31—		Change
	1956	1955 (millions)	
Total Assets .....	\$7,757	\$7,502	+ \$255
Cash & Due from Banks .....	2,073	1,943	+ 130
Loans .....	3,732	3,510	+ 222
U. S. Gov. Securities .....	1,073	1,225	- 152
Other Investments <sup>a</sup> .....	439	484	- 45
Deposits .....	6,928	6,789	+ 139
Surplus & Und. Profits .....	417	376	+ 41

<sup>a</sup>—Excluding mortgages.

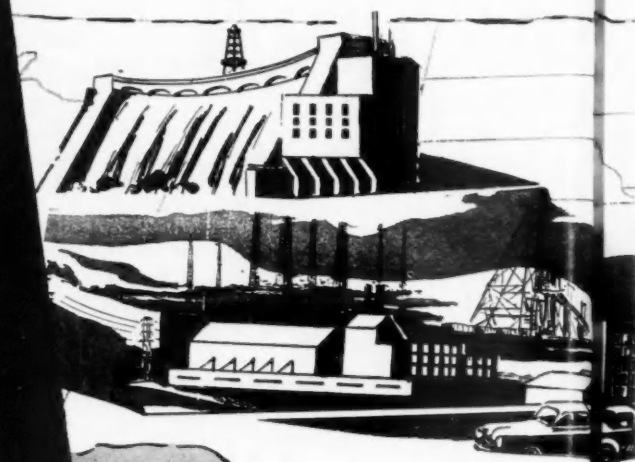
### Comparative Earnings Data

	1956	1955 <sup>b</sup>	Change
Earned per Share <sup>a</sup> .....	\$ 3.78	\$ 3.25	+ \$ 0.53
Operating Income (millions) .....	212	182	+ 30
Profit, after Interest, etc. (millions) .....	99	81	+ 18
Income Taxes on Oper. (millions) .....	50	39	+ 11
Net Operating Earnings (millions) .....	49	42	+ 7

<sup>a</sup>—Based in both years on the 13,000,000 shares now outstanding.

<sup>b</sup>—Includes combined results of the Chase National Bank and the Bank of the Manhattan Co. for the first three months of 1955.

# 1957 prospects for leading industries



## Part II

By GEORGE W. MATHIS

**T**his is the second of a two-part series discussing the prospects for major industries. In the previous issue the general economic outlook was described. The opinion was expressed that inflationary forces contributing to an uptrend in industrial production would prevail through the early months of the year, possibly reaching peak before summer, and it was suggested that some slackening in activity might be anticipated in the second half, especially in heavy industries. In the second article which follows, principal developments likely to affect the other leading segments of business are discussed.

**AIRCRAFT MANUFACTURING** — Intensification of the international cold war has reinvigorated prospects for leading aircraft manufacturers. All indications point to continuation of this trend through the current year. Extensive military orders have been supplemented by exceptionally large backlogs of commercial business. Leading airlines are preparing to replace planes powered with reciprocating engines and propellers with modern jet-powered liners. As the transition takes place in the coming five years major suppliers will have large orders on their books.

The active contest to develop intercontinental missiles capable of transporting lethal bombs over long distances also assures the aircraft industry of immense engineering and research contracts. In addition, emphasis on nuclear weapons has greatly enlarged the volume of business available for this

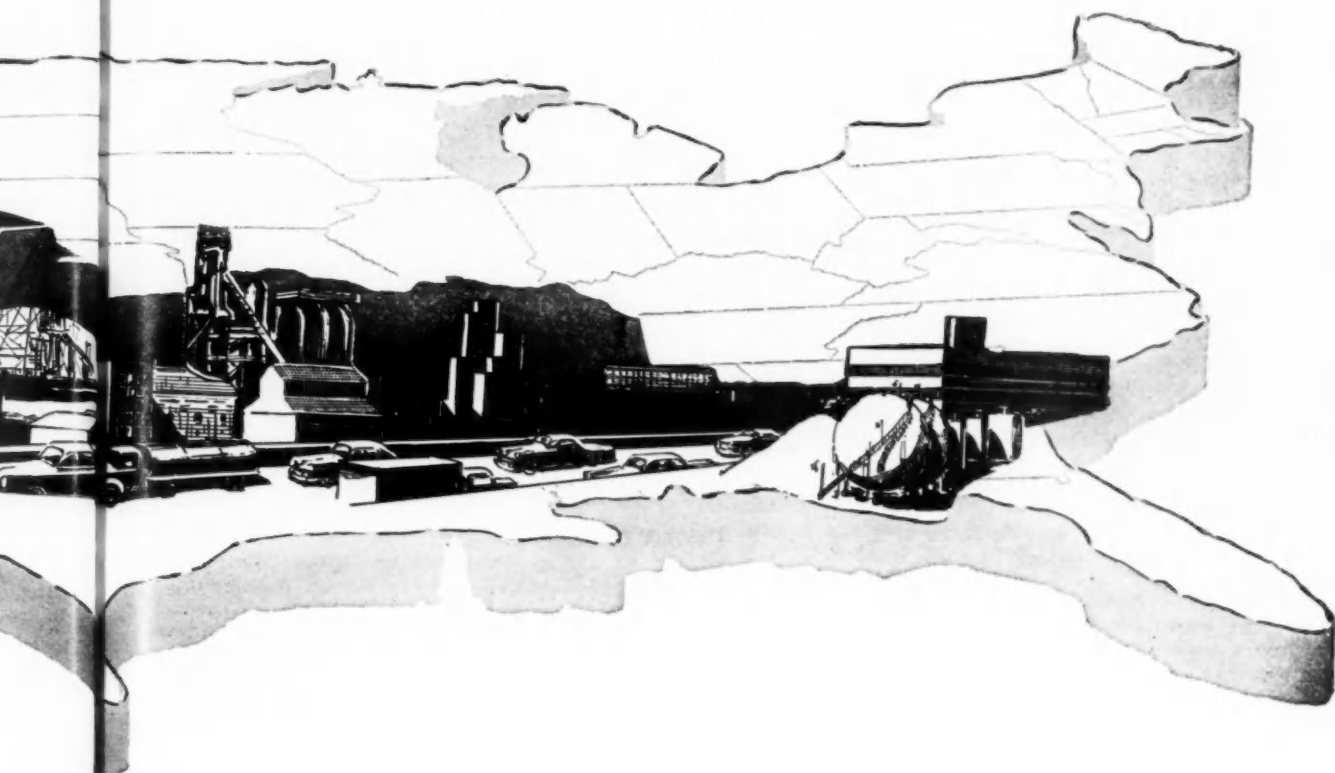
segment of industry. Production of guided missiles is rapidly expanding, several companies are engaged in construction of additional production facilities in this field.

Growth in the missile phase of aircraft conceivably could outstrip output of contemporary flying craft. Volume of business has risen sharply in recent years — from less than 1 per cent of total expenditures five or six years ago to an average of probably 10 per cent in 1956 and perhaps 15 per cent this year.

Under ordinary conditions the investor evidently would be justified in viewing prospects for this industry optimistically, since an uptrend in shipments achieved in 1956 may be expected to continue well into the future. Recent developments in renegotiation proceedings, however, have raised doubts over earnings prospects. Efforts aimed at recapturing "excessive profits" have penalized efficiency and ingenuity. Despite recommendations in Congressional inquiries into the profitability of military contracts, decisions by government renegotiation authorities have threatened to minimize management incentives and retard military progress.

Aircraft stocks have richly rewarded investors in recent years and plainly are more fully appraised on basis of prospective earnings than a few years ago. They would be vulnerable to psychological influences in event of an outbreak of hostilities threatening reimposition of excess profits taxes.

**AIRLINES** — Air travel continues to mount and should



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forge ahead to new peaks in 1957. Earnings have improved less dramatically. In fact, failure of the industry to obtain increased passenger rates commensurate with rising costs has posed a problem for the industry. Managements evidently have about reached the point where they feel impelled to raise fares. Unless action in this direction is taken promptly, the outlook for 1957 earnings must be viewed with skepticism.

Need for earnings improvement becomes increasingly urgent as the time approaches for taking deliveries on jet transports. Costs of introducing these new and expensive planes undoubtedly will prove burdensome. Assuming that they prove as economical as preliminary surveys indicate and that air travel maintains a steady uptrend, the prospective extraordinary costs could be amortized without too much difficulty. On the other hand, a few accidents with the jet equipment well might frighten potential passengers. Any slackening in the rate of progress in air travel would pose a serious problem, since major airlines have taken on substantial obligations in financing purchases of new planes.

Basis for a cheerful appraisal of the outlook is found in the fact that the railroads applied for approval of substantial fare increases and seem to have reached the conclusion that they no longer need to compete with the air transport industry on price alone. If recommended increases are granted to the carriers, rail transportation on longer routes would be more expensive than airlines' charges. Presumably the latter would be in position then to raise fares without fear of losing traffic. All things considered, the airline group appears headed for a

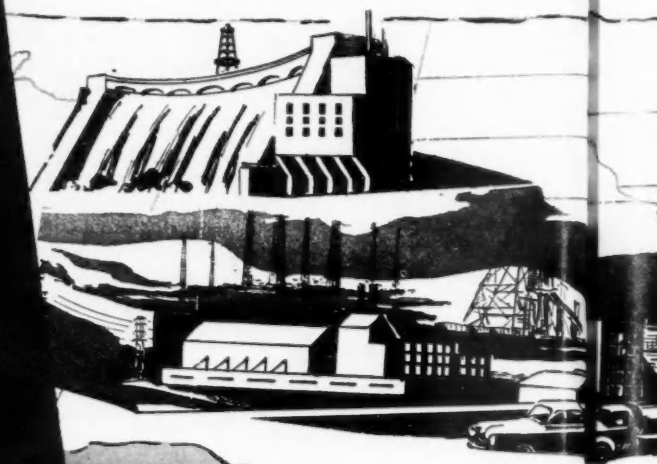
reasonably satisfactory year in continuing its steady forward progress.

**PAPER** — In line with rising population and consistent gains in per capita consumption, paper output climbed to a new record in 1956 to an estimated total of almost 32 million tons, as compared with slightly less than 30 million in 1955. With the benefit of aggressive research, encouraging still greater use of paper in packaging and in other fields, demand should be well sustained in 1957. It has been estimated that shipments this year may rise at least moderately to perhaps 33 million tons and, because of price increases averaging about 6 per cent, the value of paper output should range well ahead of the 1956 peak.

Productive capacity keeps mounting, however, tending to restrict upward price revisions commensurate with higher costs. Hourly wage rates have climbed more rapidly than selling prices, but greater efficiency attained with improved equipment has enabled producers to hold profits about in line with expanding production. Indications point to enlargement of facilities this year to such an extent that there may be some overproduction and consequent price competition that would threaten profit margins in paperboard and in corrugated containers.

At the same time, paper and container producing facilities have been moving into stronger hands. Consolidations have been numerous in this industry, and this fact should minimize adverse effects of keen competition, since operating economies can be introduced. Pending litigation may result in undoing some of these mergers, however.

# 1957 prospects for leading industries



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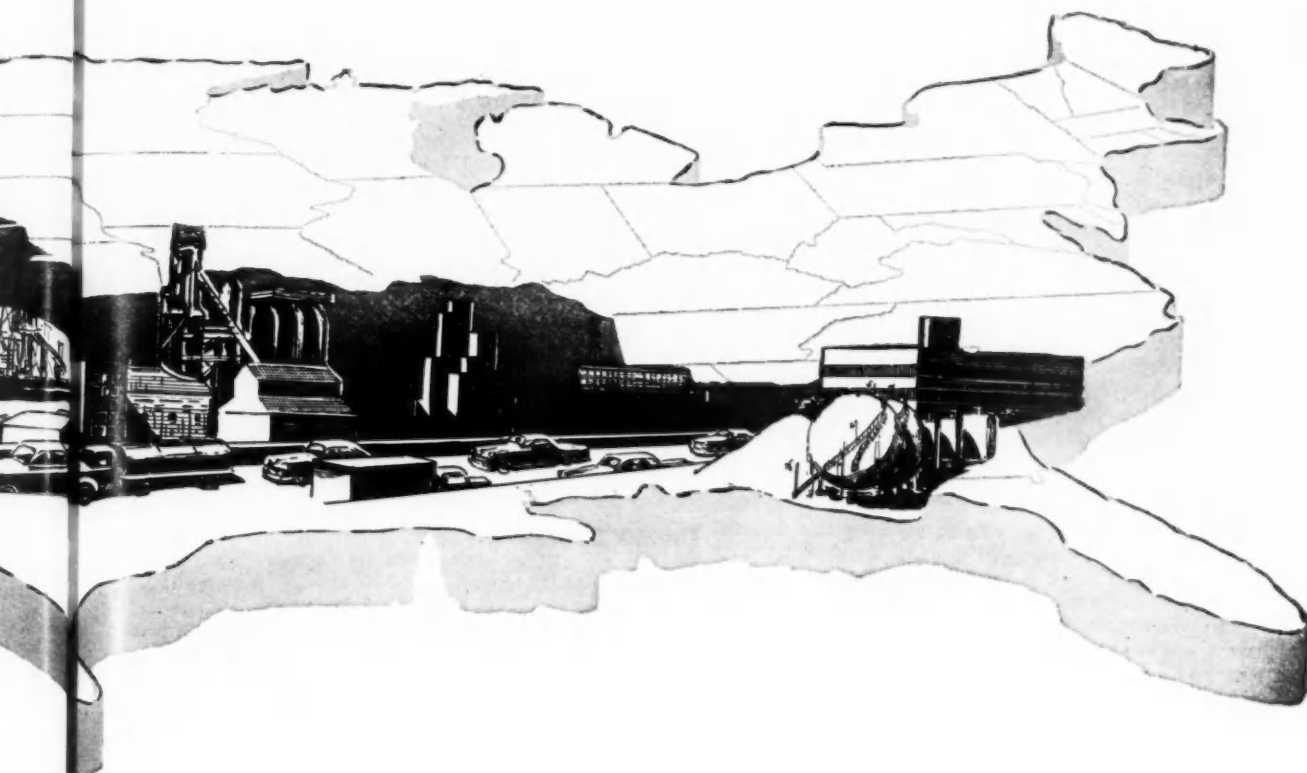
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Productive capacity keeps mounting, however, tending to restrict upward price revisions commensurate with higher costs. Hourly wage rates have climbed more rapidly than selling prices, but greater efficiency attained with improved equipment has enabled producers to hold profits about in line with expanding production. Indications point to enlargement of facilities this year to such an extent that there may be some overproduction and consequent price competition that would threaten profit margins in paperboard and in corrugated containers.

At the same time, paper and container producing facilities have been moving into stronger hands. Consolidations have been numerous in this industry, and this fact should minimize adverse effects of keen competition, since operating economies can be introduced. Pending litigation may result in undoing some of these mergers, however.

Enthusiasm over growth potentials in paper stocks had resulted in rather high appraisals on representative stocks and had raised a question as to whether such a trend would likely continue. A more cautious attitude has now developed toward the group because of the threat of overproduction and the possibility of some cutback in operations. Moreover, the outlook for increased dividends seems less promising than a year ago.

**PETROLEUM** — Prospects for American oil producers and distributors are inextricably linked with the Middle East crisis and seem destined to be governed by this situation through most of the year at a minimum. With the Suez Canal closed to oil tankers accustomed to supplying Europe's vital fuel needs, it is evident that the demand factor must remain strong in the Western Hemisphere for weeks or months to come. How long this disconcerting condition will remain no one can say; so much depends on world politics.

Diversion of oil from the Middle East by means of tankers skirting the Cape of Good Hope will ease the burden on domestic producers to some extent, but it seems clear that shipments from Gulf and Atlantic ports to Europe will contribute to a firming tendency in the crude oil market in this country. To that extent independent producers benefit. If refiners and marketers are able to pass along any higher costs resulting from a markup in crude, their position would be aided. Consumers of heating oils and gasoline may be compelled to pay more for fuel.

Immediate financial effects on companies familiar to investors are not expected to prove serious. Royal Dutch may feel the impact of increased marketing costs and restrictive influence of closing of pipeline in Syria, while Gulf Oil's operating results may reflect a sharp curtailment in shipments from Kuwait. Others having interests in the Middle East hardly would feel adverse effects of consequence unless properties were seized or output were completely cut off. This is because they have huge reserves in this hemisphere.

Current indications point to continuation of operations this year at about the same rate which prevailed in 1956. Results may be bettered to some extent if crude oil moves in large volume from this country to Europe for three to five months. The outlook for profit margins, for earnings and for dividends appears reasonably promising.

**MERCHANDISING** — Significant changes taking place in merchandising have tended to obscure the outlook for representatives of various types of retailing. The rise to prominence of shopping centers illustrates one of the problems. This development, hastened by rapid growth of new suburban communities, has retarded progress of downtown department stores and has virtually compelled retailers in this category to undertake the costly development of suburban branches. Not all of such ventures have proved profitable.

Likewise, downtown variety chains have been adversely affected by a shift of customers to the suburbs. Many groups have established outlets in shopping centers. Here they come into keen competition from supermarkets which have introduced numerous non-food products and from so-called junior department stores. As in the case of depart-

ment stores, labor costs arising from selling and from distribution have placed variety stores at a disadvantage. They have not been able to effect economies so readily as have supermarkets.

Drug chains also are being threatened by grocery chains in several states where no restrictions have been imposed on distribution of packaged proprietary drugs through supermarkets. As a result, potential growth appears more assured for grocery concerns than for department stores or for drug and variety units. Price competition, particularly in household appliances, has been considerably sharpened by the emergence of discount houses from hole-in-the-wall businesses to flourishing enterprises, some of which have spread to the suburbs with large outlets.

**NON-FERROUS METALS** — Disappearance of abnormal scarcities has featured this group in recent months. Copper has become plentiful not only in world markets but in this country and, as a result, prices have dropped back to the lowest level in two years. Although a pickup in the automotive and electronic industries would provide increased demand, there seems to be no great concern now over any possibility of a sharp upsurge in copper prices. Major copper producers appear headed for lower earnings this year than in 1956, which stands out as a big year in spite of the decline in quotations and sales in recent months.

Aluminum again is plentiful and producers are endeavoring to stimulate consumption through development of new uses. Copper once again is competitive with aluminum and the trend toward wide invasion of the copper market has been checked. The industry is in strong hands, however, and there seems no threat on growth aspects in this category.

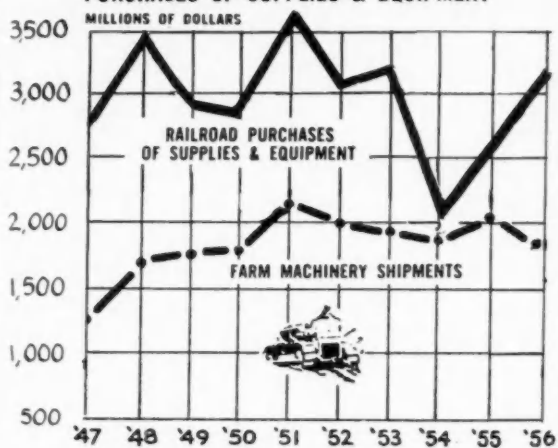
Other non-ferrous metals should do about as well this year as in 1956 if the general economy holds up as well as has been projected by most economists. Rising costs are tending to weaken margins to some extent.

**OFFICE EQUIPMENT** — Rising industrial activity and expansion of business in many directions promise to provide expanding markets for office machines in 1957. Shortages of clerical help and increased volume of paper work involved in conducting modern business necessitate greater dependence on mechanical equipment. Electronic devices have been so perfected that they minimize manual labor requirements.

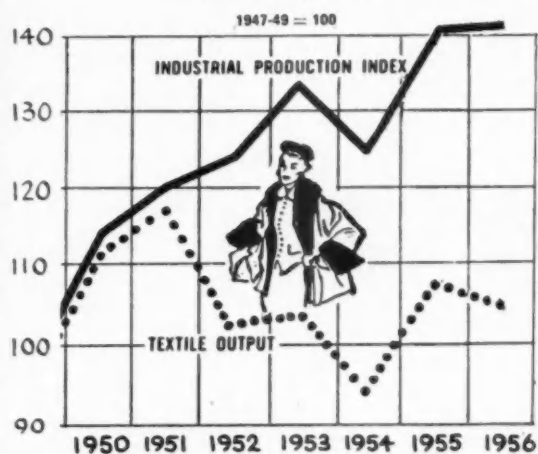
All indications point to consistent gains in sales of equipment and supplies in the coming year. In this industry as elsewhere, however, competition is becoming keener, costs continue to climb and margins seem likely to prove as satisfactory as in 1956. Enthusiasm over growth potentials has placed high evaluations of earning power on representative stocks in this group. Cautious investors may feel that the group has been fairly generously appraised.

**FARM EQUIPMENT** — Brighter prospects can be envisioned for makers of agricultural machinery this year largely as a result of a moderate recovery in farm income and because of the readjustment experienced in the last year. In farming as in manufacturing, rising labor costs have necessitated greater reliance on mechanical devices. This trend bids fair to continue. (Please turn to page 542)

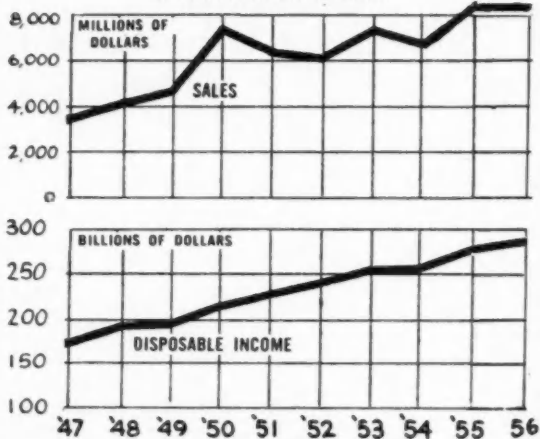
### FARM MACHINERY SHIPMENTS & RAILROAD PURCHASES OF SUPPLIES & EQUIPMENT



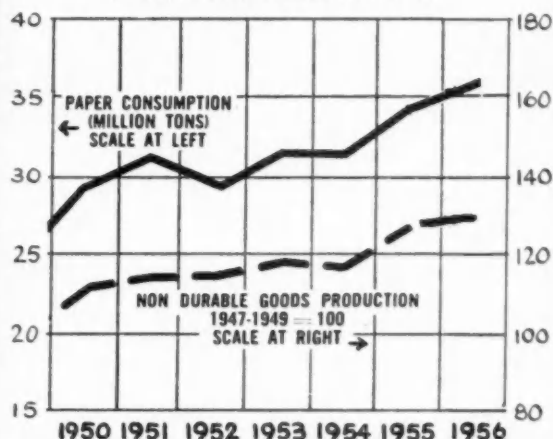
### TEXTILE ACTIVITY



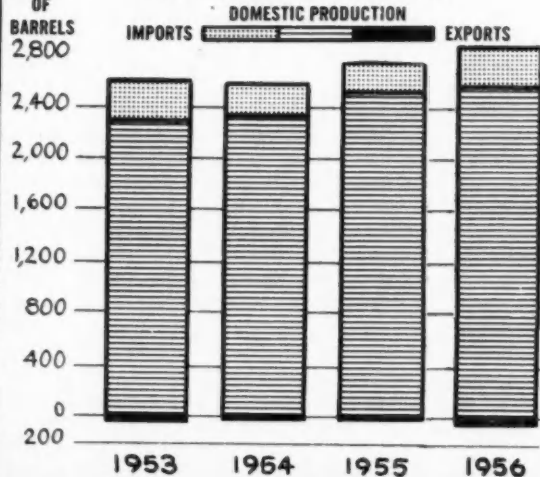
### ELECTRICAL APPLIANCE SALES & DISPOSABLE INCOME



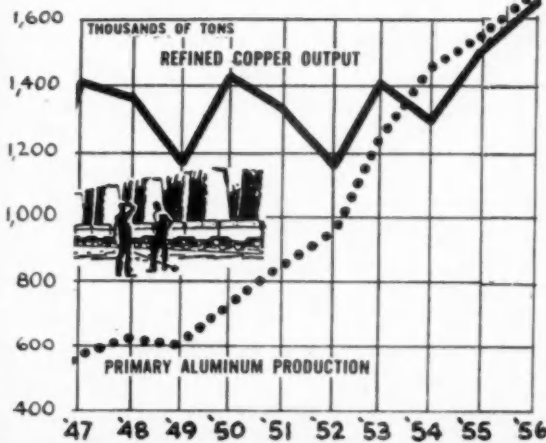
### PAPER CONSUMPTION & NON DURABLE GOODS PROD.

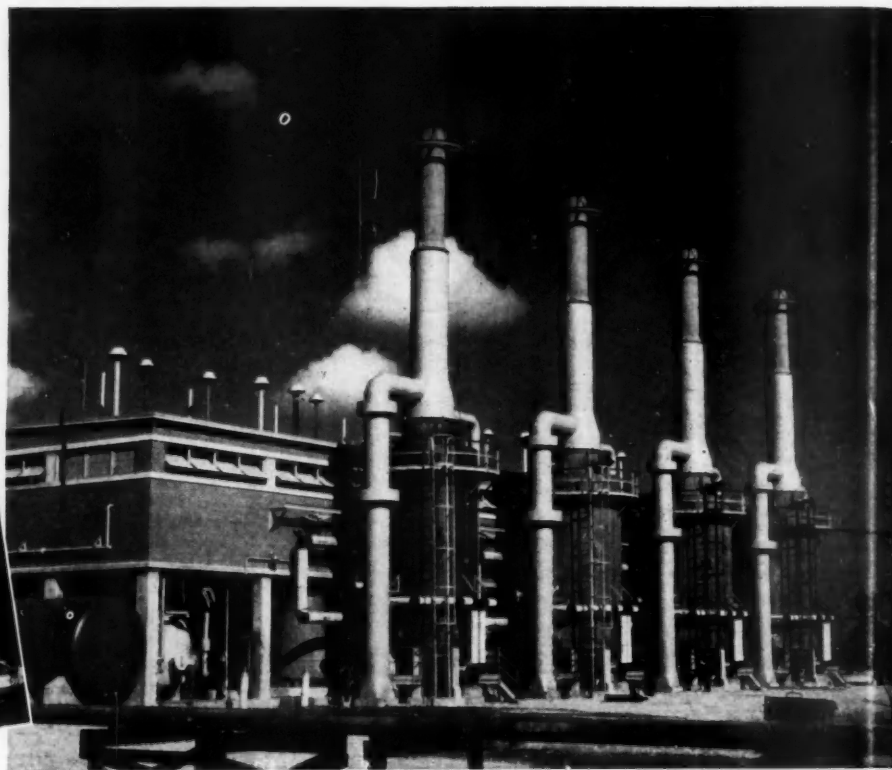


### CRUDE PETROLEUM STATISTICS



### OUTPUT OF NON-FERROUS METALS





# Mammoth Capital Investments Over Past Five Years

— Show Ailing Profits Trend —

By HOWARD NICHOLSON

In the mixed business atmosphere that prevails in early 1957, business analysts would have little difficulty finding evidence to support any forecast ranging from considerably bearish to considerably bullish. Focusing attention on new automobile models, still-rising capital expenditures, and the probable surge in the spending rate of Federal, state and local governments, a portrait of business conditions in 1957 could be done in very rosy colors. On the other hand, trends in residential building, in consumer debt, in credit availability, in inventories and in the reactions of consumers to higher retail prices, suggest a much more somber look about the new year.

"You pays your money," as the barker says, "and you takes your choice."

But before you take it, it is certainly worth your while to spend 10 minutes in contemplation of a business indicator that gets wide publicity whenever it appears in print, but for reasons that have little to do with the trend of business. Corporate profits figures

get close attention from investors, for obvious reasons: from social scientists, who are interested in the long-run distribution of American income between property shares and labor shares; and from Government budgeters, who draw roughly 40% of their income-tax revenue from corporate earnings. While economists, in general, pay lip service to the key role of profits in maintaining and expanding a free-enterprise system, they rarely pay much attention to it in their forecasting. For 1957, the oversight could be serious; one might almost say that any forecast that does not take account of the current trend of corporate profits is bound to be incomplete and unconvincing, and very possibly dead wrong in its conclusions.

The reason for this is clear enough. In the onrushing expansion of business in late 1954 and early 1955, profits rose very sharply almost across the industrial board. It took almost two years for business men's optimism to get in line with this profits trend, but they are in line

*This important and original story should be read carefully by the investor and the business man, for it contains vital analyses of the effect of basic economic influences on the fortunes of American corporations. Editor's Note.*

now. Capital expenditures, stimulated (and partly financed) by the surge of profits two years ago, now are in full tide; so is inventory buying.

*But in the two years it has taken for business spending to reach this level, the trend of profits themselves has long since flattened, and seems now to be in a slow, ponderous decline.* The level of earnings still is high; dividends in the great majority of industries still are amply protected. But *retained earnings* of all U.S. corporations have subsided rapidly — in fact, to nearly the level of the recession year 1954. As of now, the withdrawing tide of corporate profits is threatening to leave expansion outlays stranded at a record high-water mark.

#### Underneath the Profits Trend

In 1956, corporate profits, after taxes, evidently amounted to about \$21 billion. Taken by itself, this may seem to be far from a discouraging figure. To see the figure in its proper perspective, the profits figures for corporations should be adjusted to remove an illusory portion which represents so-called "inventory profit." Inventory profit arises in years when prices are advancing, because most corporations, in their inventory accounting, charge themselves book cost for purchased materials even though their cost for replacing the materials consumed has risen. After this adjustment, which in effect puts the corporate sector on a "last-in-first-out" inventory accounting basis, corporate profits in 1956 evidently amounted to about \$18.6 billion. This isn't bad either; it is the second best earnings figure on record, surpassed only by the \$19.4 billion level of earnings in 1955.

However, this is, obviously, only a small part of the story of what is happening to corporate profits.

For in the post-war years corporations have enjoyed an enormous expansion in the dollar volume of business. And to handle this increased volume they have added substantially to their net worth, through reinvestment of earnings and through the acquisition of new capital via stock issuance. In examining the level of corporate profits, what is significant is not the dollar volume of profits, but the rate of corporate returns on sales volume and on invested capital.

#### Full Speed to Stand Still

And on these bases, comparisons are far less favorable; in fact, they border on the ominous.

For while corporate profits in 1956 were only \$500 million higher than in 1948, corporate sales volume had risen by about \$200 billion; and to handle this additional volume, corporations had increased their book investment by fully \$100 billion! As a percentage of sales volume, earnings in 1956 amounted to 3.2%, compared with 4.7% in 1948. In the same period, profits as a percentage of investment fell from 9.2% to 6.4%.

To put the comparison another and perhaps more graphic way: Under 1948 conditions, current profits could have been earned by a book investment of \$205 billion; under 1956 conditions, it took \$290 billion. The last \$85 billion of investment has, in effect, been rendered profitless by the change in the business environment since 1948! Pursuing the same reasoning, the last \$180 billion of sales volume has been rendered profitless: About \$400 billion in sales, under 1948 conditions, would have yielded as much net income as \$580 billion has produced in 1956.

One need not be an economist to realize that these figures spell out an

(Please turn to page 544)

#### Trend of Corporate Profits, Sales and Book Values

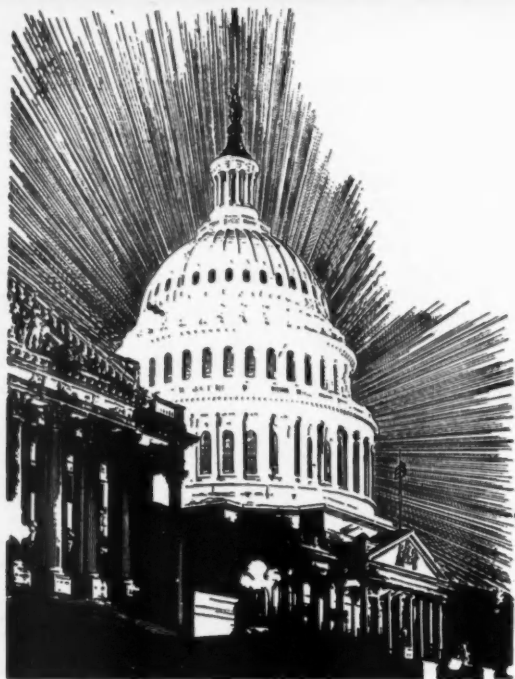
	Corporate Sales	Book Value of Corporations*	Corporate Profits After Taxes		Profits As % of Sales***	Profits As % of Book Value***
			Before Inv. Val. Adj.**	After Inv. Val. Adj.**		
Billions of Dollars						
1948	389	197	20.3	18.1	4.7	9.2
1949	370	208	15.8	17.7	4.8	8.5
1950	432	223	22.1	17.2	4.0	7.7
1951	488	239	18.7	17.4	3.6	7.3
1952	499	253	16.1	17.1	3.4	6.8
1953	523	261	16.7	15.7	3.0	6.0
1954	505	269	16.4	16.1	3.2	6.0
1955	557	280	21.1	19.4	3.5	6.9
1956	580	290	21.0	18.6	3.2	6.4
— Seasonally Adjusted Annual Rates —						
1955 I	532	271	19.7	18.3	3.5	6.8
II	557	274	20.3	19.4	3.5	7.1
III	568	277	21.5	19.6	3.4	7.0
IV	570	280	23.0	20.0	3.5	7.1
1956 I	571	283	21.6	18.8	3.3	6.6
II	580	286	21.3	18.2	3.1	6.4
III	578	288	19.8	19.0	3.3	6.6
IV	592	290	21.2	18.2	3.1	6.3

\*End of Period.

\*\*Inventory Valuation Adjustment: To correct reported profits for failure to take account of inventory replacement costs. In general, the adjustment reduces reported profits when prices are rising, and increases them when prices are falling.

\*\*\*After Inventory Valuation Adjustment.

NOTE: Book value figures for 1953-1956, Corporate sales figures for 1955-1956, and all figures for fourth quarter of 1956 are author's estimates.



# Inside Washington

By "VERITAS"

**FORECASTS** of Congressional action which flow from the pen of John L. Lewis usually are cynical, if not vitriolic, and the sense occasionally is obscured in grammatical affectations, but the aging mine-union chief has compressed his prediction for the current conclave admirably: "Working people can expect little or nothing. The new Congress probably will go down in history as the 'stalemate' Congress. Compromises will be the order of business on virtually all legislation with conservative Republicans and Dixiecrats having the final say-so on what's voted or bottled up."

## WASHINGTON SEES:

John L. Lewis has put away his crying towel—temporarily at least. The future of America's "most vital fuel industry" is bright, says the United Mine Workers leader in what must be put down as a reversal of form. For the past year, and in fact for many before that, Lewis has been wailing over the competition of other fuels, demanding that Washington do something about encouraging uses, sweeping back imports.

The Lewis observations are exultant: From all sources, he says, the story adds up. Drawing upon results of a survey his office has made, the mine chief names as subscribers to his forecast, coal operators, investment bankers, Government officials, scientists, chemists and engineers.

"It's getting brighter all the time and will continue so far many many years to come," he said.

The story seems logical enough. Coal's markets have shifted dramatically in the last few years. But the shifts already have put coal back on top of the heap as the nation's No. 1 source of energy. The three major shifts have been, in order of increased use of coal: The electric utilities industry, the steel industry, and exports to coal-hungry foreign lands.

**SMALL BUSINESS** can forget the campaign promises of tax relief. The likelihood that the burdens of the "little fellow" will be eased is less now than one year ago. Many bills, some Congressional hearings and solemn pledges by both political parties came in the meantime. But so also did the Suez Canal flareup and Hungarian refugee problems. A defense budget of unprecedented size proposed by Ike will be upped by Congress. Also without precedent is the contest between the two parties for credit in holding the tax line that both wanted broken last year. So small-business tax cut has gone the way of other reductions—out!

**WHITE HOUSE** strategy on foreign aid will be to hold off on precise figures as long as possible. The President reportedly believes time will work in his favor. Also he doesn't want to mention an amount now and be held to it if circumstances later make it clear that Capitol Hill is in a mood to go further. He knows that whatever aid budget is submitted, it will be criticized, condemned, probably whittled down. Word traveling the Pennsylvania Avenue grapevine is that \$4 billion is figure as of today. But in today's mood it is highly improbable that the President would have the necessary support for an amount that high.

**SURPRISE** element has been missing in Presidential messages to Congress in recent years. Reason, of course, is the practice of "previewing" contents to Congressional leaders, who promptly beginning spilling the news. To be watched for now is not surprises but what comes afterward: Does the President crack down on his party and the rival one? Does he drop the suggestions into the laps of the lawmakers, shrug his shoulders and wait? Are there conferences, progress reports? What does the President do to show he really means what he said?

# As We Go To Press

► President Eisenhower got past his first serious hurdle on the day Congress convened: The "Lausche threat" didn't materialize. The on-again-off-again Senator from Ohio voted with the Democrats to organize the Senate. He had been playing at the game of cat-and-mouse since Election Day. In alternating statements he said he would vote with the Republicans, and with the Democrats. It now appears that what he had in mind was a course of action free of party label, on specific legislative questions.

► He had been elected on the Democratic ticket, although his record is that of a Taft Republican, a badge he wears openly, and proudly. The White House had sufficient problems with party division between it and Congress; if Lausche were to be responsible for making the Senate Republican, and the House were to be Democrat, Congress would be fighting itself as well as the Admin-

istration. The Eisenhower program would be bound to suffer.

► In the lower branch, the Democratic majority is sufficient to insure continued control by that party for the next two years, unless the averaging of vital statistics proves drastically wrong. The Senate situation is slightly different. Senator Theodore Green of Rhode Island, nearing 90 and the oldest man ever to serve in the Senate, has said he would quit if health becomes a deterrent to full activity in Congress. A Republican had been declared Governor of his state and that would have meant realignment of the Senate if Green were to step aside. But the court ruled a Democrat had won.

► The balance of power still is precarious. Whether vacancies this year, or next might make the GOP the numerically stronger party remains to be seen. If that happens, the Republicans might hesitate to accept control and responsibility. Two years ago the situation was almost the same as this year: it was not known until Congress convened which party would organize the Senate, grab its chairmanships. The Demmies had difficulty convincing Senator Carl Hayden of Arizona that he should go along on accepting control. He contended Congress and the White House would suffer by reason of split responsibility. Eventually he acquiesced.

► President Eisenhower has had

two years of experience with a Democratic Congress. He fared well. Some say he did better than if his party were in control -- there was an adhesive in the fact of minority that produced a degree of solidarity, and the Democrats saw the opportunity to use their majority to establish an affirmative record rather than a "me, too" one. The situation which Lausche was in a position to create January 3 would have created the urge on the part of the two Houses to act as brakes on each other, with political motivation.

► The first chore of the President, organizationally, is to win the Old Guard over to his New Republicanism. He could hasten this process by remaining aloof from legislative action after proposing measures. But there is no indication that he intends to do that. Ike is on the crest of popularity and has nothing to gain politically by soft-soaping politicians of either party. He can't be a candidate for re-election. He has taken an accelerated course in practical politics since 1952 and has learned the lesson of FDR, in 1932: Strike fast and count your winnings while the "honeymoon" lasts.

► The "New Republicanism" is not especially a device to win elections. It is, rather, an attitude toward Government which, Ike believes, will justify such faith in the party as to make it the preference of the voters. For that reason, the conversion does not involve a dramatic sawdust trail; the switch can be gradual, reflected in legislative output

rather than in pledges. If the program spelled out in the series of Presidential messages this month is enacted in its essential form, the New Republicanism will be here.

► There no longer is any pretense of a bi-party foreign policy. In the first few years of the first Eisenhower Administration, the Democrats loudly acclaimed the State Department program as fundamentally and particularly the Truman-Acheson doctrine. In the past 12 months there has been a radical departure from that position: The Administration was pictured as having no program at all. During the election campaign, and especially since the Middle East crisis broke into the open, the Democrats have been happy to tag this Government's international policy as the Eisenhower program. Democratic votes went for permitting the President to prepare for armed intervention on the theory that it was "his mess." They were seeking to dramatize the extent to which, in their theory, it got out of hand.

► The President's appearance before a joint session of Congress on the day after its opening was billed as a discussion of the Middle East and the need for affirmative steps by the United States. Those who heard or read the message had little doubt that the seriousness of it justified the personal appeal. But there was another purpose, not quite so clear: Ike knows that his request for increased foreign-aid funds will meet stubborn resistance. Having worked with this program from its start (before he entered political life), he rates it the keystone to international policy. By emphasizing the potential of the Middle East flareup, he was indirectly making an appeal in advance to sustain a new and higher foreign-aid budget.

► The campaign plus the series of White House conferences with Congressional leaders of both parties prepared Capitol Hill for what was to appear in subsequent, formal messages. To read the catalog of legislative aspirations is to review subjects on which there is little, if any, disagreement. It is on the methods of achievement, the amount and manner

of disbursing, that the battle comes. The debate over ending filibusters in the Senate has only begun. It will crop up from time to time throughout the session. Whether victory is in sight will not be material. Northern Democrats have seized the ball and are running with it. Republican support for anti-filibuster measures is taken for granted.

► Created with fanfare, but sunk almost at the launching, was the Democratic party Advisory Committee, a creature of Chairman Paul A. Butler's mind. It met here January 4, the day after Congress convened. It had been conceived as an instrument of translating party opinion for the Democratic legislators and vice versa. When Speaker Sam Rayburn and Senator Lyndon Johnson, Senate Minority Leader, rejected appointments, it was the end. It was an end, too, to a "Modern Democracy" movement which was intended to rival the "Modern Republicanism" of the White House. It was to downgrade party machinery in the legislative processes. Little more will be heard from it.

► Corridor conversations and scufflings for committee preferences in the first week of the session show plainly that the spirit of the late Senator Taft still hovers over the chamber he once graced. This is especially true in matters of foreign policy. Senator John M. Bricker's perennial effort for limitation on White House treaty-making powers is one of the more persistent, if less effective manifestations.

► The importance of the Bricker amendment is considered to be its business-suspending effects. In three sessions of Congress it has tied up work, stalled progress. And got nowhere in the end. The Ohio Senator has still another version this year. It has been worded somewhat differently but the results would be the same. It would weaken the President's power to deal across the table with other nations by holding him to the ministerial acts of discussing and reporting back to his "superiors," the Congress, say his opponents. But with Bricker it's a crusade and sense of proportion seems to have been obscured.



# RESURGENCE IN JAPAN

by JOHN H. LIND

Like in so many other nations, in Japan too the most important developments of 1956 took place in the last quarter of the year, following a relatively quiet but prosperous first nine months. In the last three months Japan re-established diplomatic relations with Russia, changed its Government, became a member of the United Nations and, of course, felt the consequences of the Suez Canal closure.

The first of these was somewhat less than a full peace treaty with the USSR since the question of the return of a number of islands occupied by the Soviets in 1945 could not be settled. But it did bring about the immediate release of several thousand Japanese soldiers who had spent nearly 12 years in Soviet prison camps. It also meant the re-establishment of regular commercial relations be-

tween the two countries after a long lapse.

Japan's admittance to the U.N. took place so recently that she has had no chance, as yet, to display her policy within this body. In fact, such a policy may not even have been determined. At a recent interview the new Prime Minister stated quite frankly: "We are racking our brains about our obligations (in the U.N.) and how to carry them out."

## Dilemma Posed by Blocs

Japan may well find that the division of the U.N. into various blocs may present her with a difficult dilemma. She considers herself a loyal member of both the non-Communist Western bloc and the Afro-Asian bloc. Since the two frequently are at logger-

heads, it should be interesting to see with which bloc Japan will side when forced to choose.

The new Government of Tanzan Ishibashi also is still too new to permit any definite opinion regarding its policy. But some things can already be said about it. When the name of the new Prime Minister first was announced, Washington registered some uneasiness. There were several reasons for this.

For one thing, Ishibashi had been Finance Minister in 1947 when he was unceremoniously ousted by Gen. MacArthur and officially labeled as an imperialistic warmonger. For another, he had a reputation as an economist who believed in the principle of expansion by inflation. It was therefore feared his policies could wreck Japan's current prosperity. Finally, Ishibashi has been one of his country's foremost advocates of more trade with Communist China, a subject which causes our State Department to wince.

#### Ishibashi Reassures U. S.

The new Prime Minister laid most of these worries to rest within a week after his appointment. He made it clear in his first press conference that though Japan's "relations with the U. S. have been fairly close . . . I would like to make this relationship even closer by strengthening our moral cooperation." On the question of inflation he has not made any specific pronouncements but he did appoint a well-known opponent of inflationary policies to the key post of Finance Minister. The new Premier may prime the economic pump somewhat in 1957, but this need not have inflationary consequences. As the accompanying table shows, most economic indicators have registered a smaller increase in the current fiscal year than in the previous one and will show a still smaller one in the fiscal year beginning next March. Therefore a moderate rise in spending would do no more than to keep the country's economic growth at an even rate. It also would help to sop up the still considerable number of unemployed.

Mr. Ishibashi is pledged to encourage more trade with Red China and he has already stated that he will send a trade delegation there. However, he has made it clear that he will not recommend diplomatic recognition of the Mao Tse-Tung regime for the time being and that Japan will not export any goods to China which are on the embargo list of the NATO countries. However, his Government will try to persuade the United States to take some items off the embargo list.

#### Lure of the China Market

The chimera of large-scale trade with Red China has a very strong appeal in Japan's official and

### Outlook for Japan's Economic Future

(As a percent of the previous fiscal year\*)

	1955-56	1956-57	1957-58
Gross National Product .....	110.3	109.0	106.3
National Income by Distributive Shares .....	111.0	110.3	106.0
Private Capital Formation .....	120.9	122.6	101.6
Personal Consumption Expenditures .....	106.9	110.6	107.0
Industrial Production .....	112.5	116.0	107.0
Agricultural Production .....	117.0	96.9	99.0
International Balance of Payments			
Receipts .....	120.0	114.5	104.9
Exports .....	130.8	117.4	106.5
Payments .....	117.7	133.5	103.2
Imports .....	110.7	134.9	103.4

\*Fiscal year ends in March.

Source: Bank of Japan.

war level, can not do so unless it recaptures a large share of the China trade. China herself is, of course, fully supporting this view by continuously making tempting trade offers to Japan for goods on the strategic embargo list.

China has two reasons for doing this. One is to get Japan — and subsequently other countries — to ignore the embargo list. The other is to use the promise of increased business as a device to gain full diplomatic recognition. There is no danger that the new Japanese government will fall for either of these two stratagems. If it did, it would soon find out what is already clear to many neutral experts, namely that Sino-Japanese trade will never again assume the importance it had in the pre-war world. Too many basic economic changes have taken place in both countries for the former trade relationship to be re-established. Unfortunately, as long as the U. S.-imposed embargo exists, the Japanese public is likely to overlook this fact and look upon trade with China as a forbidden fruit. And the lure of forbidden fruit always is strong.

#### Developing Other Markets

Fortunately, Japan's foreign trade has made such progress in the last two years that the loss of the China mainland market has not been felt too keenly. Full figures for 1956 are not yet available but a comparison of foreign trade in the first 10 months of 1956 and 1955 shows the following over-all increases (in thousands of dollars):

	Jan.-Oct. 1955	Jan.-Oct. 1956
Imports .....	\$1,516,300	\$2,628,759
Exports .....	\$1,582,000	\$2,004,910

For the fiscal year ending March total exports are estimated to reach \$2.5 billion while imports are estimated at \$2.9 billion. With income from "special procurements" (mainly U. S. arms purchases in Japan) expected to reach over \$600 million there will be a net deficit of \$80 million. However, receipts of U. S. surplus agricultural products for which no foreign currency payments need to be made and the receipt of deferred payments will put the trade account into the black by some \$60 million.

Even more important than this increase in foreign trade is the change in composition of Japan's trade. In the first 10 months of 1956 Japanese sales of

business circles. This is understandable for prior to World War II China was, by far, Japan's largest customer, particularly when Manchuria was under direct Japanese domination. In 1955, it amounted to no more than 2.5% of the country's total foreign trade. Most Japanese feel that their foreign trade, which has never returned to its pre-

metal products and machinery have, for the first time, outdistanced textile exports. During this period Japan earned \$628 million in foreign currency for shipments of metal and machinery, against \$611 million for textile goods. Before the war, textiles accounted for over half the nation's export earnings, while machinery brought in less than 10%. At present, textiles have dropped to one-third of total trade, and machinery and metals have risen to about the same proportion.

### Boom in Shipbuilding

Largely responsible for the upward trend in durable-goods sales is the current super-boom in shipbuilding in Japan. This has made Japan the world's second largest shipbuilding nation and the first one in ship deliveries. It now has enough ship orders on hand to keep busy for the next four years. About three-quarters of these orders are destined for the dollar area and new orders from this source are now coming in at even higher rates, in view of the current tanker expansion program in the U. S. In December alone, the Tidewater Oil Co. placed orders for four super-tankers with the Mitsubishi shipyards and Caltex ordered another two. Total export contracts for shipbuilding for the current fiscal year are likely to reach 2 million tons (70% more than the official target set last March) and will bring in over \$500 million in foreign exchange.

Also rising are exports of other durable industrial and consumer goods, including electrical equipment, rolling stock, textile machinery, machine tools, bicycles, etc. About 43% of these items go to sterling area countries, mainly in Southeast Asia. This shows the extent to which Japan has been able to develop new markets in an area which prior to the war took only 10% of her durable goods.

An interesting example of the rise in exports of this category are sewing machines. Japan's production of this item is now 12.5 times above the pre-war record. The following figures give Japan's position in world sewing-machine output in 1955:

	units
U.S.	2,000,000
Japan	1,970,000
W. Germany	1,000,000
Britain	500,000
Other countries	700,000

Of Japan's total sewing output, a full 77% was exported, the bulk—nearly 700,000 units—to the U. S. It is interesting in this connection that Singer, the largest U. S. sewing-

machine concern, has recently made an agreement whereby a Japanese firm will manufacture machines with the Singer trade name for both the local Japanese market and for export. Eventually these machines may well find their way into the U. S. home market of Singer, thus adding another well-known name to the growing number of U. S. firms which have transferred some of their production for the U. S. home market to foreign countries, where manufacturing costs often are much lower than in the U. S.

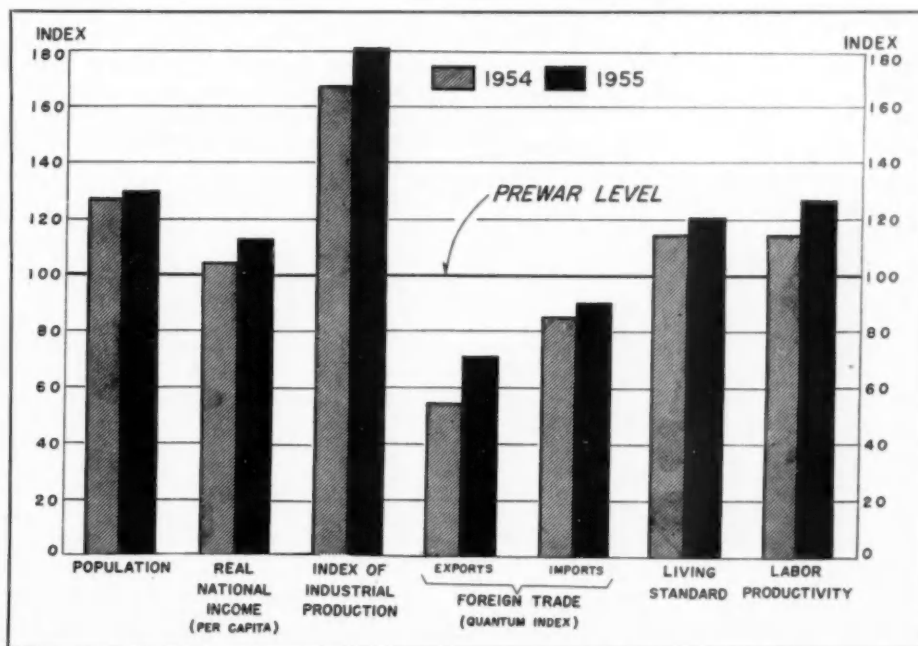
### Earning Foreign Exchange

In shifting to durable exports, the Japanese are greatly strengthening their foreign-exchange earning position. Natural-fiber textile goods earn a foreign exchange profit averaging only about 50%. On the other hand, machinery which utilizes some domestic materials (while all natural fibers have to be imported) and involves far more processing often earns more than 90% foreign-exchange profit. This means that, in effect, Japan is earning more per dollar of exports now than before the war.

The great question facing Japan as it enters the new year is whether the export expansion of the last two years can be maintained. According to a recent Bank of Japan forecast, the export rise of the last two years will definitely not be repeated in the next fiscal year. Rather, both exports and imports will remain on the plateau reached in the current fiscal year with exports increasing slightly more than imports. This is not a very encouraging prognosis.

Japan, like Britain, must export to survive and can only increase her (Please turn to page 540)

Principal Indicators of  
Japanese Economic Reconstruction





## 1957 Prospects For The RAILS

By EDWARD S. WILSON

Investors in railroad common stocks obviously are taking a jaundiced view of the outlook for earnings and dividends in 1957 with the Dow-Jones railroad average now selling nearly 14% below the 1956 high, compared with a decline of 5% for the industrial average. In our opinion, this attitude ignores several basically favorable long-term factors in the carrier picture. These include:

(1) signing of three-year wage contracts with the operating and non-operating brotherhoods which will stabilize the labor situation for the first time; (2) a much more sympathetic attitude on the part of the previously dilatory Interstate Commerce Commission, as indicated by recent speedy action on the emergency freight rate increase and the Western passenger fare boost; (3) the indicated favorable outlook for the major sources of railroad freight traffic, notably the steel, coal and automobile industries, and (4) the reasonable market valuations on price x earnings and yield bases of the equities of leading railroads with previous records of outstanding traffic and earnings growth.

Present estimates are that gross revenues of Class 1 railroads in the year 1956 rose 4% to approximately \$10.5 billion from \$10.1 billion in the previous year. On the other hand, net income de-

clined about 6% to \$875 million from the all-time peak of \$927 million reached in 1955. Taking all factors into consideration, this earnings showing required no apologies. In the first quarter, of last year, and again in November and December, the nation's carriers were burdened with increased wages without offsetting freight rate increases. Not until last March 7 did the I.C.C. grant a 6% freight rate boost to counteract the higher wages which went into effect on October 1, 1955. Again on last November 1, wages were boosted by 12½ cents per hour, although a freight rate increase of 7% for the Eastern roads and 5% for the Western carriers did not become effective until December 28. However, in the latter case, the commission demonstrated a rapidity of action never before witnessed in approving an emergency increase only six weeks after application by the carriers on November 6.

It is a well-known and sad fact that, in the post-war inflationary period, the railroads have been faced with a seemingly continuous round of wage increases with a time lag of several months invariably following before compensatory rate increases could be obtained. However, with the I.C.C. turning a more favorable eye towards rate increases, undoubtedly spurred on by Congressional agitation for

more equitable rate regulation along the lines suggested by the President's Cabinet Report, and with the signing of the revolutionary three-year wage agreement, there appears to be a solid basis for the hope that the wage-rate relationship may be stabilized. For the first time, the carriers know for three years ahead the amount of wage increases to be met and can prepare well in advance to apply for compensating rate increases before the incidence of annual wage increases. In an attempt to anticipate this future levy upon earnings, the railroads have applied to the commission for a 15% rate increase in order to obtain a rate of return approaching the 6% spelled out in the Transportation Act of 1920 (the current rate of return is under 4%). Hearings commenced January 15, and the ultimate decision of the I.C.C. and its timing will shed considerable light on future Government regulatory policy.

In the accompanying table on p. 519, we show the following financial data for 30 principal railroads: (1) estimated 1956 and actual 1955 earnings per share of common; (2) the estimated annual amount of the recent emergency freight rate increase in total dollars (\$450 million for Class 1 roads) and per share after a 52% tax rate; (3) the estimated annual amount of the recent wage increase in total dollars (\$300 million for Class 1 roads) and per share after taxes; (4) recent market price; (5) estimated dividend rate; (6) yield; and (7) price x estimated 1956 earnings per share.

This tabulation is subject to three important reservations: (1) the favorable spread in most cases between the benefit of the rate increase and the cost of the wage increase will be narrowed considerably by the burden of continuously rising material costs; (2) due to tax reductions from five-year amortization, most railroads have an effective tax rate of well under 52% so that the net amounts of the rate and wage increases are both understated, and (3) the assumption has been made that the Southern railroads will receive the same 5% emergency freight rate increase as the Western roads, even though hearings on the application of the Southern carriers did not commence until January 7.

It will be noted that, in the case of the following 12 railroads of the 30 covered in our table, the estimated net per-share benefit of the freight rate increase, over the wage increase will exceed 10% of estimated 1956 earnings:

Railroad	Estimated 1956 Earnings	Net Benefit After Taxes	
		Per Share	% of Est. 1956 Earnings
Baltimore & Ohio	\$10.65	\$2.07	19.4%
Boston & Maine	1.25	0.97	77.6
Chicago, Milwaukee, St. Paul & Pacific	2.50	0.41	16.4
Delaware, Lackawanna & Western	2.90	0.29	10.0
Erie	3.00	0.68	22.7
Lehigh Valley	2.75	0.45	16.4
Missouri Pacific "A"	8.50	0.87	10.2
New York Central	5.60	0.59	10.5
New York, Chicago & St. Louis	4.00	0.55	13.8
Pennsylvania Railroad	3.20	0.45	14.1
St. Louis-San Francisco	3.75	0.43	11.5
Western Pacific	6.80	0.75	11.0

In view of the freight-rate increase and the indicated favorable traffic outlook over the first half-year at least, we estimate conservatively that gross revenues of Class 1 railroads in 1957 should reach a new high of \$11 billion, a year-to-year increase of 5%. Depending upon the level of traffic volume and the rate-wage relationship later in the year, net income could range between \$925 million and \$975 million, representing a new all-time high. Earnings comparisons should be particularly good in the first quarter due to the fact that, in the like 1956 period, the carriers were forced to pay higher wage rates without an offsetting freight rate increase until March.

### Carloadings Gain Forecast

The Shippers' Advisory Board estimates that first-quarter carloadings will run 3.7% ahead of 1956 levels and the validity of this forecast is borne out by the continuing upturn in the important coal, steel and automobile industries. Responsible trade sources now forecast that steel production should hit at least 120 million ingot tons in 1957 vs. 116 million last year. From a railroad standpoint, it is also important that, with a new three-year contract in the steel industry, the production flow should be continuous throughout the year, as compared with the serious disruption of traffic caused by the five weeks' strike last July and August. The National Coal Association now forecasts 1957 bituminous production at 532 million tons vs. 510 million tons in 1956 and 474 million tons in 1955. The sharp uptrend in export coal shipments, which had a marked effect on the earnings of the Pocahontas roads last year, is expected to show a further moderate rise subject to the available supply of trans-Atlantic shipping.

Automobile output is expected to rebound about 10% this year above the 5.8 million units in 1956. In view of the importance of the durable-goods industries in the traffic composition of the railroads, it is significant that the Department of Commerce recently has estimated corporate capital expenditures at a \$38 billion annual rate in the first quarter of 1957 vs. the total of \$35 billion for the 1956 year.

Reflecting the railroad's own heavy capital outlays, the net working capital position of Class 1 carriers was reduced 14% during the past year as shown below: (000s omitted)

	9/30/56	9/30/55	Change
Current Assets	\$3,436,813	\$3,600,866	-\$164,053
Incl. Cash & Temporary Cash Invs.	1,742,764	2,050,079	- 307,315
Materials & Supplies	744,308	660,627	+ 83,681
Current Liabilities	2,039,896	1,986,535	+ 53,361
Net Working Capital	\$1,396,917	\$1,614,331	-\$217,414
Current Ratio	1.68-1	1.81-1	
Net Working Capital, Exclud- ing Materials & Supplies	\$652,609	\$953,704	-\$301,095

According to the Interstate Commerce Commission, gross capital expenditures of Class 1 railroads amounted to \$1.238 billion (\$403 million for road and \$835 million for equipment) in 1956, an increase of 39% over the \$894 million (\$337 million and \$557 million) reported in 1955. Depreciation charges for way and equipment in 1956 amounted to approximately \$555 million vs. \$535 million in 1955. The

Commission estimates that capital outlays in the first quarter of the current year will rise 22% to \$364 million (\$78 million for road and \$286 million for equipment) from \$298 million (\$74 million and \$224 million) in the like 1956 period. With raw material costs again rising, it will be difficult to build up liquid resources substantially this year. However, the working-capital positions of most roads remained comfortable.

### Cash Dividends Set High

In fact, cash dividend declarations of Class 1 carriers in 1956 reached a new high of about \$500 million (57% of estimated net income), or 19% above 1955's \$421 million (45% of net income). Of the thirty railroads covered in our tabulation, the following seventeen paid higher dividends in 1956: Atchison, Topeka & Santa Fe; Baltimore & Ohio; Chesapeake & Ohio; Chicago, Rock Island & Pacific; Denver & Rio Grande Western; Great Northern; Illinois Central; Kansas City Southern; New York, Chicago & St. Louis; Norfolk & Western; Northern Pacific; Pennsylvania; St. Louis-San Francisco; Seaboard Air Line; Southern Railway; Union Pacific; and Virginian. Seven railroads appear to be logical candidates for further dividend liberalization in 1957. These are: Baltimore & Ohio; Denver & Rio Grande Western; Louisville & Nashville (also split); Norfolk & Western; Northern Pacific; Southern Railway; and Virginian.

Although capital outlays of \$1.2 billion in 1956 undoubtedly caused a temporary cash drain, a large part of these expenditures went into improvements (mechanization of way and accounting, "push button" classification yards, centralized traffic control, new diesels, etc.), which should produce an annual rate of return of 15% to 30%. In our opinion, due consideration is not given to this factor in the heavy emphasis placed by many analysts upon the indicated reduction in future railroad net income caused by the running off of charges for five-year amortization. These charges resulted in a 1956 tax deferment of \$185 million (21% of net income) as compared with \$187 million (20%) in 1955 and an estimated \$175 million (18%-19%) in 1957. In addition, adoption of new accounting methods of depreciation allowed by the Internal Revenue Department such as "sum of the digits" and "declining balance" will cushion any drop in earnings due to lower amortization.

It is our feeling that the year-end selling wave of unusual intensity to establish tax losses has depressed many good quality railroad equities to a level where they represent attractive long term investment opportunities on the basis of present and prospective earnings and dividends. It will be noted that the thirty issues represented in our tabulation are selling on the average of 8.6 times estimated 1956 earnings to yield 5.7% at current dividend rates. If we exclude the four issues which paid no cash dividend in 1956, the price x earnings ratio is lowered to 7.5 times and the yield basis is raised to 6.1%. At a time when a continued stiffening of interest rates has attracted a sizable amount of equity money into the bond market, the liberal returns offered by equities of well managed and efficient railroads in the growth areas of the South and West should act as an important stabilizing

factor. In addition, the spread between the yields offered by good grade railroad and industrial stocks is now as wide as it ever has been in the post-war period. At the year-end, an average of twenty railroad stocks was returning a yield of 6.13% as compared with 4.05% for the fifty industrials.

### Investor Selectivity Urged

With a few notable exceptions, we would advise restriction of railroad common-stock investments to the issues of the better Southern and Western railroads. In the post-war era, these carriers have been able to show a rather steady upward trend in revenues and earnings despite the inflationary cycle of wage and material costs, because of the population and industrial growth of the territory served. On the other hand, the major Eastern railroads, notably the New York Central and the Pennsylvania, have had their operating profit margins narrowed appreciably by these higher costs due to below-average traffic growth, large passenger deficits and heavy terminal expenses. As a result, the chief source of earnings improvement for these Eastern carriers lies in a substantial reduction in expenses, a task which becomes increasingly difficult.

With this basic investment philosophy in mind, the following seven stocks have a measure of appeal but new purchase considerations should be correlated with the market advice by A. T. Miller in each issue.

Atchison, Topeka & Santa Fe	Illinois Central
Chesapeake & Ohio	Southern Railway
Denver & Rio Grande Western	Virginian
Northern Pacific	

(The Chesapeake & Ohio and Virginian are technically Pocahontas railroads, but the indicated long term uptrend in bituminous coal consumption places them in a favorable position in our opinion.)

Of the seven issues listed above, the common stock of Southern Railway appears to have the greatest short term attraction in view of the good possibility that the annual dividend rate at the January 22 directors' meeting will be raised from \$2.60 to \$3 per share, which would yield a return of 6.7% at the present market price.

For investors primarily interested in capital gains, we feel that the equities of Kansas City Southern, Northern Pacific and Western Pacific merit consideration but commitments must be carefully timed. (Consult A. T. Miller market forecast). Kansas City Southern common sells at the lowest price x earnings ratio of any good railroad equity, i.e., 7.2 times, and the current annual dividend rate of \$4 per share represents only 37% of estimated 1956 earnings of \$10.75 per share for the consolidated system, including the Louisiana & Arkansas.

The Northern Pacific is showing a steady gain in railroad operating efficiency, has interesting potentialities in its extensive oil and lumber holdings, and could effect substantial cost savings over the longer term through the proposed merger with the Great Northern and Chicago, Burlington & Quincy.

The Western Pacific, with a relatively small number of common shares (577,000), has a considerable leverage factor in earnings, which should work to advantage in 1957 as the large scale improvement program bears increasing fruit and traffic from the

(Please turn to page 552)

# Pertinent Earnings Data On 30 Railroads

	Earned Per Share		Est. Annual Freight Rate Increase		Est. Annual Wage Increase		Recent Price	Indicated Current Dividend	Yield	Price Times Est. 1956 Earnings Per Share
	1956 (Est.)	1955	Total Before Taxes (000's)	Per Share After Taxes	Total Before Taxes (000's)	Per Share After Taxes				
Atchinson, Top. & Santa Fe .....	\$2.70	\$2.94	\$22,200	\$0.44	\$16,300	\$0.32	26	\$1.60	6.2%	9.6
Atlantic Coast Line R.R. Co. ....	5.00	5.60	6,100	1.19	5,200	1.01	46	2.00	4.3	9.2
Baltimore & Ohio .....	10.65	8.45	24,000	4.52	13,000	2.45	46	2.50	5.4	4.3
Boston & Maine .....	1.25	3.56	3,800	3.42	2,800	2.45	19	—	—	15.2
Chesapeake & Ohio .....	8.28	7.25	12,300	.74	10,000	.60	66	4.00	6.1	8.0
Chi., Mil. & St. Paul .....	2.50	3.27	9,500	2.15	7,700	1.74	18	1.00	5.6	7.2
Chi. & North Western .....	d13.00	d2.68	7,200	.42	7,300	.43	24	—	—	—
Chi., Rock Island & Pac. ....	5.20	5.54	7,300	1.20	5,600	.92	37	2.70	7.3	7.1
Delaware, Lack. & W. ....	2.90	d0.58	4,000	1.14	3,000	.85	25	*	—	8.6
Denver & Rio Grande .....	5.35	5.18	3,400	.75	2,000	.44	41	2.50	6.1	7.7
Erie Railroad .....	3.00	2.97	8,700	1.70	5,200	1.02	20	1.50	7.5	6.7
Great Northern .....	5.15	5.27	11,000	.87	7,900	.62	45	3.00	6.7	8.7
Illinois Central .....	7.80	8.61	11,100	1.72	8,600	1.33	62	4.00	6.5	7.9
Kansas City Southern .....	10.75	11.14	3,100	1.46	1,600	.75	77	4.00	5.2	7.2
Lehigh Valley .....	2.75	3.74	3,700	1.18	2,300	.73	17	1.20	7.1	6.2
Louisville & Nashville .....	10.80	10.53	8,400	1.72	5,400	1.11	87	5.00	5.7	8.1
Missouri Pacific "A" .....	8.50	7.93	12,000	3.00	8,500	2.13	41	3.00	7.3	4.8
New York Central .....	5.60	8.03	34,000	2.51	26,000	1.92	35	2.00	5.7	6.3
New York, Chi. & St. L. ....	4.00	3.95	9,400	1.10	4,700	.55	29	2.00	6.9	7.3
N. Y., New Haven & Hartford .....	d2.00	1.67	5,200	2.27	5,000	2.18	15	—	—	—
Norfolk & Western .....	7.20	6.70	7,000	.60	5,100	.44	70	4.20	6.0	9.7
Northern Pacific .....	4.25	3.86	7,500	.73	6,000	.58	40	1.90	4.8	9.4
Pennsylvania Railroad .....	3.20	3.13	43,600	1.59	31,200	1.14	22	1.65	7.5	6.9
St. Louis-San Fran. Ry. ....	3.75	4.40	5,500	1.49	3,900	1.06	26	2.00	7.7	6.9
Seaboard Air Line R.R. ....	4.50	4.53	6,100	.61	4,400	.44	35	2.50	7.1	7.8
Southern Pacific .....	6.00	6.22	27,000	1.43	22,000	1.17	45	3.00	6.7	7.5
Southern Railway .....	5.70	5.39	10,900	.81	6,900	.51	44	2.60	5.9	7.7
Union Pacific .....	3.20	3.39	20,100	.43	14,300	.31	30	1.60	5.3	9.4
Virginian Railway .....	10.00	7.12	2,000	.77	900	.25	75	5.25	7.0	7.5
Western Pacific .....	6.80	8.13	2,300	1.91	1,400	1.16	62	3.00	4.8	9.1
Average—30 Railroads .....	4.73	5.17	—	—	—	—	40.8	2.32	5.7	8.6

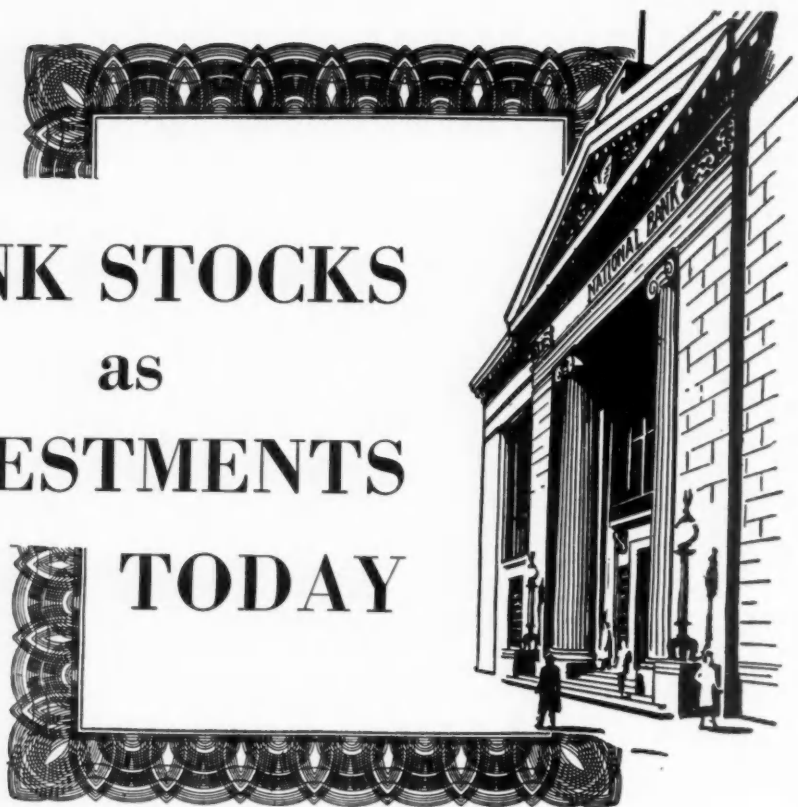
d. Deficit.

\* Stock Dividend.

⊙ Plus Stock.

# BANK STOCKS as INVESTMENTS TODAY

By  
W. A. LUKENS



## *A Free Money Market Gives Them New Appeal*

The banking business had the biggest year in its history in 1956. Chances are this year will be even bigger — with all that implies not only for those who already own bank stocks but for investors on the lookout for good buys.

Bank annual reports covering 1956 business, released this month have made mighty pleasant reading for shareholders. In most cases, earnings soared to new highs, loans on the books were at record levels and, in many instances, dividends were fatter.

The reason for this sparkling performance boils down to one thing: The record 1956 business boom. Bank earnings are strongly influenced by the rate of business activity. The super-fast business pace last year required lots of credit. In addition, the Federal Reserve Board kept a tight grip on expansion of the money supply in order to keep the boom under control. This had the effect of letting interest rates rise in response to a demand for credit greater than the supply. So, what happened was banks handled a bigger volume of loans at fancier interest rates.

### **Favorable Factors Still Present**

From all indications, the same factors that affected bank earnings so favorably last year (heavy

loan demand and the Fed's "tight money" policy) will be operating again this year. Another element in the 1957 bank stock outlook is the recognition by more and more investors that in today's money market there is no official ceiling on interest rates. This is quite different from the old days when a Government "cheap money" policy kept interest rates low — even though the price was a shrinking dollar. Under today's conditions, assuming good business levels, bank earnings and dividends can move up smartly. This warrants reappraisal of the old investor feeling of dis-interest in bank stock because "banks just can't make enough money due to low interest rates." (Please see page 501 of this issue for a study of Chase Manhattan Bank. THE MAGAZINE analyzed First National City Bank in the issue of December 8, 1956.)

### **What Happened in 1956**

Before taking a closer look at this year's prospects it is worthwhile to glance briefly at some of the major developments in 1956.

The accompanying tables give the broad, overall story. One table reveals, among other things, the tremendous demand for credit — especially by business — at the member banks of the Federal

Reserve System. The other table traces the sharp rise in money rates during the year and the increase in bond yields.

The performance of individual banks spells out even more dramatically what a highly successful year 1956 turned out to be. Some spectacular examples: California's Bank of America, the nation's biggest, chalked up another tremendous year of growth. At the year-end its resources were less than \$9 million below the fabulous \$10 billion level. New York's First National City reported a 22% increase in net operating earnings during 1956. Chase Manhattan, biggest in New York and the second largest in the nation, boosted its operating earnings sharply and pushed its resources to just under \$7.8 billion.

Smaller banks, (by comparison with the giants) too, generally had a big year. A few picked at random: First National Bank in St. Louis showed net earnings after taxes up about 13%; Wells Fargo Bank in San Francisco reported loans and discounts at the year-end at \$205.5 million—up more than 22% from a year earlier; the Plainfield (N. J.) Trust Co. pushed its total assets to a new high of more than \$57 million, and net earnings of the City National Bank & Trust Co. of Chicago increased 19% last year for a new record.

#### Banks In The Financial Capital

New York City, which boasts more big banks than any other city in the nation, is a good area to consider in some detail. It gives a pretty good idea of the forces affecting the banking business throughout the country.

The New York banks, which account for over 20% of all loans to business, faced a terrific demand for credit last year—especially from business. Their business loans, for instance, reflecting heavy borrowing for plant and equipment outlays, rose \$2.3 billion in 1956—as against only \$1.6 billion in the

previous year which was also one of good business.

Net operating earnings of the larger New York banks climbed a hefty 17% from 1955 levels. (Prices of these banks stocks rose much less—5½% in 1956, compared with 6½% the previous year.) Previous records were topped right and left as new highs were set in loan volume, assets and earnings. In addition to higher interest rates on loans, the banks also added to earnings as a result of higher service charges, and increased trust and estate administration fees.

Expenses also rose—largely because of higher wage and salary costs, and increased interest payments on savings and time deposits. Total earnings, of course, climbed considerably faster than expenses.

The banks generally sustained sharp losses from their security operations. Faced with greater demand for credit than could be met by increases in deposits, the banks sold U. S. Government and other securities in order to get funds to make higher-yielding loans. With bond prices depressed because of tight-money conditions, this meant heavy losses. Generally, however, these losses were charged to the appropriate reserve account and did not affect income from operations.

Charges on loans by the New York banks—as well as elsewhere in the country—moved up to the highest point since the early 1930's. The "prime rate"—the charge to the biggest borrowers with the best credit ratings—was moved up to 3¾% in April and up again to 4% in August; in 1955, the prime rate ranged from 3% to 3½%. All other lending rates are scaled upwards from the prime quotation.

#### The 1957 Outlook

Yields to investors from the stocks of major New York banks ranged at the beginning of this year from a low of 2¾% to a high of 4.94%. The average yield for the stocks (Please turn to page 554)

Statistical Data on Leading Bank Stocks

	—Total Deposits—		—Loans & Discounts—		U. S. Govt. Securities		Book Value per Share 12-31-56	Earnings per Share*		Indicated Current Dividend	Recent Bid	Dividend Yield
	12-31-56	12-31-55	12-31-56	12-31-55	12-31-56	12-31-55		1956	1955			
	(Millions)											
American Trust, San Francisco	\$1,487	\$1,410	\$ 840	\$ 757	\$ 372	\$ 411	\$ 38.04	\$3.75	\$ 3.32	\$1.60	40 <sup>1</sup> / <sub>2</sub>	3.9%
Bank of Amer., San Francisco	8,993	8,803	5,353	4,728	1,770	2,149	21.99	2.58	2.55	1.80	37 <sup>3</sup> / <sub>4</sub>	4.8
Bankers Trust, N. Y.	2,484	2,494	1,469	1,403	422	464	60.25	5.02	4.86	2.80	64 <sup>3</sup> / <sub>4</sub>	4.3
Chase Manhattan, N. Y.	6,928	6,789	3,732	3,669	1,073	1,231	44.59	3.78	3.25 <sup>a</sup>	2.40	51 <sup>3</sup> / <sub>4</sub>	4.7
Chem. Corn. Ex., N. Y.	2,760	2,896	1,483	1,307	462	507	43.48	3.87	3.62	2.00	47 <sup>3</sup> / <sub>4</sub>	4.2
Cleveland Trust Co.	1,389	1,353	734	636	350	446	260.94	3.87	3.22	6.00	292	2.1
Continental Illinois, Chicago	2,497	2,474	1,167	1,011	731	863	87.45	7.43 <sup>b</sup>	6.79 <sup>b</sup>	4.00	89 <sup>3</sup> / <sub>4</sub>	4.5
First National City, N. Y.	6,672	6,309	3,708	3,185	1,184	1,319	56.94	5.20	4.25	2.80	69 <sup>3</sup> / <sub>4</sub>	4.0
First National of Boston	1,539	1,613	938	868	292	374	53.39	6.01	4.91	3.05	66 <sup>3</sup> / <sub>4</sub>	4.6
First National of Chicago	2,649	2,718	1,505	1,330	572	792	230.80	20.56	19.59	8.00	308	2.6
First Penna. Bkg., Philad.	1,026	984	543	534	153	158	39.17			2.15	43 <sup>1</sup> / <sub>4</sub>	5.0
Guaranty Trust, N. Y.	2,543	2,714	1,573	1,499	688	830	81.45	5.64	4.87	4.00	87 <sup>1</sup> / <sub>4</sub>	4.9
Hanover Bank, N. Y.	1,654	1,754	911	833	316	441	44.06	3.78 <sup>b</sup>	3.23 <sup>b</sup>	2.00	43 <sup>3</sup> / <sub>4</sub>	4.6
Irving Trust, N. Y.	1,539	1,558	785	756	398	395	25.53	2.06	2.02	1.70	34	5.0
Manufacturers Trust, N. Y.	2,845	2,956	1,165	1,081	697	769	41.01	3.59 <sup>c</sup>	3.22 <sup>c</sup>	2.00	44 <sup>1</sup> / <sub>4</sub>	4.5
Mellon National, Pittsburgh	1,736	1,674	930	758	369	486	104.48	7.70	6.76	4.00	107	3.7
National Bank of Detroit	1,854	1,880	722	620	699	753	46.63	4.08	4.26	2.00	60 <sup>3</sup> / <sub>4</sub>	3.3
New York Trust	733	772	406	401	171	177	65.81	4.29	4.07	3.50	69 <sup>3</sup> / <sub>4</sub>	5.0
Philadelphia National	957	910	463	418	153	172	98.30	3.56	3.72	5.00	114	4.4
Security 1st Natl., L. A.	2,338	1,976	879	632	1,035	960	37.15	3.56	3.71	1.60	48 <sup>1</sup> / <sub>2</sub>	3.3

\*—Net operating or indicated earnings.

<sup>a</sup>—Includes combined results of Chase National Bank and Bank of the Manhattan Co. for first three months of 1955.

<sup>b</sup>—Adjusted for 20% stock dividend paid in 1956.

<sup>c</sup>—Adjusted for 2 for 1 split.

### Comparison of Newsstand Sales of Magazines

Publication	(Average Sale Per Issue)		% Change
	First Six Mos. 1956	First Six Mos. 1955	
Life .....	911,007	968,918	- 6.1
Time (U. S. edition) .....	202,613	216,070	- 6.2
Sports Illustrated .....	93,251	107,874	-13.6
Reader's Digest (American edition) .....	1,627,361	1,679,257	- 3.1
Ladies' Home Journal .....	1,551,793	1,625,142	- 4.5
McCall's .....	1,509,396	1,321,257	+14.2
Better Homes & Gardens .....	1,455,979	1,391,061	+ 4.7
Woman's Home Companion .....	943,365	1,083,836	-13.0
Good Housekeeping .....	939,407	905,823	+ 3.7
Cosmopolitan .....	755,662	684,549	+10.4
Esquire .....	278,044	312,219	-10.9
Saturday Evening Post .....	1,490,353	1,456,679	+ 2.3
Holiday .....	169,969	175,811	- 3.3
TV Guide* .....	2,971,959	2,296,071	+29.4
Life Romances* .....	333,564	188,505	+77.0
My Romance* .....	331,065	212,570	+55.7
Confidential* .....	3,442,536	2,323,296	+48.2

Source: Select Magazines, Inc.

\*—Notice public preference today.



## Publishers Burdened By Heavier Costs

By JONATHAN WINGATE

Publishers one day last month came away from the roar of their presses and the clatter of their linotype machines to learn of an important casualty among their ranks. The publishing business, like every other industry, has been beset with record high labor costs, increased materials costs and rising transport expenses—and more, much more.

It is little wonder then that publications—news-papers and magazines—have been hit by a rising mortality toll. On this December day, however, there were twin casualties, as Crowell-Collier Publishing Co. announced the passing of the venerable "Collier's" and "Woman's Home Companion." Only last summer, Crowell-Collier's "American Magazine" went to press for the last time.

Lest the impression get abroad that these three famed magazines, with their multi-million nation-

wide circulation, suffered from an illness peculiar to the Crowell-Collier household let it be stated at once that all publications of the mass-circulation type are finding the going plenty painful.

### Flourishing "Service" Publications

On the other hand, the service-type of publication, produced by companies such as McGraw-Hill Publishing Co., Inc., is enjoying unprecedented prosperity. McGraw-Hill sets new records for gross income each year and—more important—new peaks of net profit. Its dozens of magazines and books, of course, are directed at business people and the trades.

People don't subscribe to service-type publications for amusement or to help the boy next door through college. A magazine such as "Iron Age" or "Petro-

leum Week" is a tool of a man's trade. A trade or specialized magazine has no mass appeal and little or no waste in its circulation.

Contrast this situation with the Crowell-Collier kind of magazine. Its "American Magazine" was folded although circulation was better than 2.8 million. "Collier's" was over the 4 million mark and "Woman's Home Companion" was at a near-peak of almost 4.3 million.

### No Need for Autopsies

Although news of the demise of "Collier's" and "Woman's Home Companion" may have come as a surprise in some circles, there was no need for autopsies to determine the cause. Chief factor was "an immediate cash problem" in meeting bank loans, paper bills and payrolls. The problem stemmed from rising costs and declining revenues. These magazines last year lost more than \$7.5 million.

Indeed, the corporate loss will be reduced to something more like \$2.5 million, thanks to the profitable operations of its "Harvard Classics," the "Junior Classics" and Collier's Encyclopedia, which are more closely akin to service-type publications. Crowell-Collier also has a stake in musical records and a radio station.

### Why They Folded Up

While the aforesaid burdensome costs played a vital role in the death of these mass-circulation publications, one of the most onerous expenses was the cost of securing new circulation under the competitive struggle for readers among the various magazines.

This resulted in what is called in the trade "forced circulation." It involved the use of sales crews which, in many cases, not only receive the full cost of the subscription but bonuses as well. Then there is the method of forcing subscriptions through so-called "package deals." A package usually consists of several magazines at a flat reduced price, sold to the buyer by special vending groups, and may include publications in which the reader has little or no interest.

Buyers of advertising media, of course, are aware that circulation built in this fashion contains a good deal of dross, and that copies of magazines that go unopened by subscribers represent ad dollars down the drain.

It is an unhappy fact, however, that, by and large, buyers of ad space demand quantity of circulation first, let the chips fall where they may. Under the circumstances, it is not surprising that various publishers turn to artificial

stimuli to boost sales. In the case of Crowell-Collier, it may well be that the space salesmen were not able to offset the circulation costs.

Lacking a clear-cut "service" aspect and practically in direct competition with television in the fiction-entertainment field, Crowell-Collier, of course, had other problems that are familiar enough to every other business. Paper, materials of other types and wages—all these were bounding upward.

Time, Inc., too, has felt the pinch, despite the diversity in its publications, which include the news weekly "Time," the pictorial weekly "Life," the monthly business magazine "Fortune" and "Architectural Forum"—but has benefited substantially from outside investments.

In any appraisal of Time's "fortune," it is well to remember that early last year the company cleared \$15 million when it disposed of its 144,500 shares of Houston Oil Co.

This year it has disposed of 350,000 common shares of St. Regis Paper Co., which should enable the publishing firm to clear, after taxes, more than \$6 million as a capital gain. It is understood that Time wants the money for its capital-spending program.

Time, Curtis Publishing Co. ("The Saturday Evening Post") and other publishers have been forced to boost their price to recapture a part of their increased costs. "Life" has gone to 20 cents from a dime and "The Post" to 15 cents from a nickel. Similar increases have been made by other mass-circulation magazines which make little or no money on circulation. The "package" promotions would not seem to offer a way out in an era of high costs.

In the case of "Time," that news weekly has been feeling the hot breath of other magazines in the field, notably "Newsweek" and "U. S. News & World Report."

### Changes at Curtis

Curtis Publishing Co. has done a little rearranging during the past 18 months. In August, 1955, it divested itself of "Better Farming" magazine through sale to Farm Journal, Inc. This was followed by carrying out, with stockholders' approval, a management-sponsored recapitalization plan, the principal features of which were creation of \$25 million 6% subordinated income debentures and 612,734 shares of \$1.60 dividend prior preferred in exchange for a like number of \$4 dividend prior preferred. At the same time the 32,320 shares of \$7 dividend preferred were called for redemption.

(Please turn to page 552)

### Ad History of Collier's and Companion, 1951-56

(Source: Publishers Information Bureau)

	Collier's		Woman's Home Companion	
	ad pages	revenue	ad pages	revenue
1951 .....	1,717.59	\$18,835,923	945.42	\$12,410,419
1952 .....	1,537.83	\$18,852,827	791.91	\$11,586,496
1953 .....	1,244.43*	\$16,310,942*	749.96	\$ 1,955,278
1954 .....	1,088.74**	\$16,480,775**	626.39	\$10,150,913
1955				
(1st quarter) .....	200.02	\$ 3,372,786	149.20	\$ 2,398,193
(2nd quarter) .....	313.90	\$ 5,330,200	171.37	\$ 2,796,292
(3rd quarter) .....	235.15	\$ 3,927,604	149.73	\$ 2,354,993
(4th quarter) .....	304.17	\$ 5,206,054	162.39	\$ 2,636,534
1955 (total) .....	1,053.24	\$17,836,654	632.69	\$10,196,012
1956				
(1st quarter) .....	227.61	\$ 3,870,252	136.71	\$ 2,185,474
(2nd quarter) .....	280.65	\$ 4,751,405	134.50	\$ 2,213,737
(3rd quarter) .....	212.67	\$ 3,632,888	122.70	\$ 1,988,917
(Oct.-Nov.) .....	186.01	\$ 3,102,853	119.37	\$ 1,951,337
1956 (11 months) .....	906.94	\$15,357,398	513.28	\$ 8,339,465

\*—Effective August 7, 1953, Collier's went bi-weekly. Total issues for 1953: 41.

\*\*—1954 is first full year of 26 issues on bi-weekly schedule.



## Have Insurance Stocks Passed Their Peak?

By **PETER BLACK**

Those with only the slightest knowledge of the market for fire-casualty and life-insurance stocks are painfully aware that, almost without exception, prices have reacted rather sharply from peaks, reached in most cases, as long ago as 1955. The real question, therefore, is the outlook for 1957 and beyond for these issues which have historically served so well the patient investor but which, in the boom year of 1956, declined in a manner which might almost be called precipitous, while the stock market as a whole, as measured by the popular averages, went through a series of modest undulations winding up at a point which was not very far

from that at which it began the year.

Before attempting to look into the future, it is wise to take a hard look at the past. Although life-insurance stocks participated with their fire and casualty cousins in the general price retreat, the two groups must be treated separately, as their fundamental operations and problems differ considerably. Taking the fire and casualty stocks first, it will be seen that the 30 leading issues listed on the table had by the year-end declined on average almost 30% from their 1955-56 highs while the Dow-Jones industrial average declined only 4% from its 1956 high of 521.05. This left the fire and

casualty insurance stocks at an extremely low point in relation to industrials as is shown on the following table.

Ratio of Fire and Casualty Insurance Stock Price Index to Dow-Jones Industrials for the Final Week in Each of the Following Years:

1956	0.49	1948	0.67
1955	0.58	1947	0.61
1954	0.70	1946	0.65
1953	0.72	1945	0.66
1952	0.69	1944	0.71
1951	0.61	1943	0.76
1950	0.68	1942	0.79
1949	0.74	1941	0.83

But one does not ordinarily buy a stock simply because it has gone down in price or because other issues have risen more rapidly; one must seek the cause for the decline or lag and weigh the chances for recovery, which may or may not indicate that a favorable buying juncture has been reached. Although final earnings for insurance companies will not be generally available until February, it is already obvious that 1956 will go down in history as one of the worst years from the point of view of underwriting profits. In a number of cases underwriting losses will exceed investment income, and the company which will be able to report an improvement in underwriting earnings will be rare, indeed. Fate dealt a severe blow to the fire and casualty insurance industry in 1956, just as in 1949 it was unusually generous. Insurance men do not expect all lines to be equally profitable at all times but, as a rule, if there is one line which is turning in a particularly poor performance, there is another which is doing better than average, and the result is relative stability in underwriting results both on an industry-wide basis and for those companies doing a well-diversified business. But 1956 witnessed all major lines turning in a poor or deteriorating performance.

#### Disaster Costs Cited

Straight fire insurance, which in 1955 accounted for 17% of all stock company premiums, has had its profitability reduced to the vanishing point by the double-edged sword of reduced premium rates and rising loss claims. For several years prior to 1955, fire insurance had produced very generous underwriting profits, and, true to the classical pattern, this led to rate reductions, the full effects of which began to be felt in 1956. At the same time there was a pronounced upturn in fire losses which, for the first 11 months of 1956, were 12% above those for the comparable period in 1955, as estimated by the National Board of Fire Underwriters. And still to be counted are the normally high losses for December which this year will include the Brooklyn pier fire and the disastrous grass fires in the Los Angeles area.

Automobile bodily-injury insurance produced about 16% of stock company premium income in 1955, but in recent years its contribution to net income on an industry-wide basis has been considerably less impressive than its contribution to gross.

In the past seven years only 1953 and 1954 witnessed modest underwriting profits. The line slipped into the red late in 1955, and in 1956 conditions continued to deteriorate as a result of increasing accident frequency and the mounting size of individual settlements. The adoption of compulsory automobile liability insurance by New York State and the apparent drive for similar legislation in other jurisdictions are no cause for rejoicing from the stockholder's point of view. No matter what the validity of the arguments of those favoring compulsory insurance may be, the simple truth is that the experience of Massachusetts bodes ill for even modest profitability of the line once premium rates become an annual excuse for politicians to demonstrate their concern for their constituents at the expense of the insurance companies.

#### Reduced Rates and Rising Claims

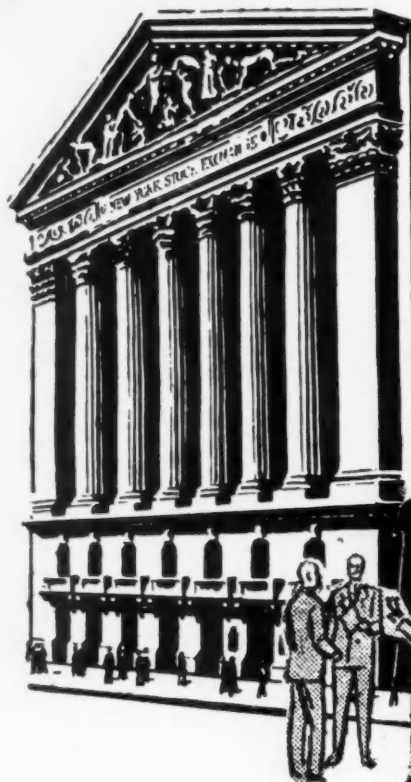
Automobile physical damage insurance was, in 1955, the most important single line from the standpoint of stock company premium volume, edging out by a very close margin straight fire insurance, which was the historical leader in the field, but it is probable that after all the statistics for 1956 are assembled it will be found that automobile bodily injury took the lead. The physical damage line has been an outstandingly profitable one in recent years, but the double squeeze of reduced rates and increasing loss claims has taken its toll here also.

These three major lines account for more than half the premiums received by the stock fire and casualty insurance companies, but the tale of woe does not end here. Automobile property damage, extended coverage, and both inland and ocean marine all hovered around or dipped into the red. Only accident and health, fidelity and surety, and workmen's compensation lines, which together in 1955 produced about 18% of stock company premium volume, turned in a creditable performance last year.

Clearly the present situation can not continue indefinitely if we are to have a healthy insurance industry capable of serving the expanding needs of our economy. In the past, periods of unprofitable underwriting have been followed in due course by rate increases which restored profit margins to the black. The vital question now facing investors is whether this historic pattern will continue, and the answer appears to be yes — but with qualifications. While it is true that the cyclical pattern of insurance underwriting profits is a pronounced one, no two cycles are ever the same, and there is no reason to assume that the future will witness an exact repetition of the past. This is particularly true today as we witness many fundamental changes throughout the entire fire and casualty insurance industry and the numerous stresses and strains which these changes produce.

#### Coping With Costs, Competition

The mass production of goods led to the mass distribution of goods, and we have now entered a period of mass "production" and "distribution" of services, among which one must include insurance. The phenomenal growth of the so-called direct writers who have been able to shave premium rates by abandoning the traditional agency (Please turn to page 548)



## FOR PROFIT AND INCOME



### Looking Back

In 1956, as a whole, the Dow industrial average chalked up a net gain of less than 2.3%. That means, of course, that gains and losses among the 30 stocks were not far from evenly balanced in a market so mixed that movement of the average could tell no great part of the story. Fourteen of the stocks lost ground on the year. Among the biggest losers were Allied Chemical, Chrysler, du Pont, International Paper and Sears, Roebuck. The biggest gainers principally were Bethlehem Steel, Goodyear, International Nickel, United Aircraft and U. S. Steel.

### Rails

The rail average ended 1956 with a net decline of about 5% on the year. Only three of the 20 stocks gained ground. Gains were relatively large for C. & O. and Norfolk & Western, both predominantly carriers of bituminous coal; and modest for Great Northern. Some big losers, on a percentage basis, were Atchison, New York Central, New Haven, Southern Pacific and Union Pacific.

### Utilities

Most utilities stood up fairly

well — some much better than that — in the face of rising bond yields. Thanks to having in it some natural-gas stocks and a few growth-type electric power stocks, the Dow utility average gained over 6.6% on the year — after a decline, if recovered recently to reach a level only 2.1 points under the 1956 top. Yet only seven of the 15 stocks gained ground on the year. However, the declines were mostly small and some of the gains were large. The stocks that did most to put the average up were Consolidated Natural Gas, Houston Lighting & Power, Panhandle Eastern Pipe Line and Peoples Gas. Without

the "gas" supplied for the journey by the gas stocks, it would have been a different story for the average.

### Looking Ahead

It is too early to have much conviction about the selectivity patterns of 1957. It could be that the rail average will hold up better than industrials, assuming some further rate relief and allowing for the sizable decline from the bull-market high already seen. Rail earnings will not be hit in 1957 by a steel strike, which took a heavy 1956 toll. The Pocahontas coal roads cannot gain as much this year as last.

#### INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
American Steel & Pump .....	Year Nov. 30 <sup>b</sup>	\$ .92	\$ .66
Koehring Co. ....	Year Nov. 30 <sup>b</sup>	2.00	1.30
Midwest Piping .....	9 mos. Nov. 30	1.18	1.01
Morrell (John) & Co. ....	Year Oct. 27	3.60	3.37
Oklahoma Natural Gas .....	Year Nov. 30	2.00 <sup>c</sup>	1.89 <sup>c</sup>
South Jersey Gas .....	Year Nov. 30	2.12	1.63
U. S. Ceramic Tile .....	Year Oct. 31	1.80 <sup>c</sup>	1.56 <sup>c</sup>
Armstrong Rubber .....	Year Sept. 30	1.80	1.74 <sup>c</sup>
Brockton Taunton Gas .....	11 mos. Nov. 30	1.12	.74
El Paso Natural Gas .....	Year Oct. 31	4.17 <sup>c</sup>	2.70 <sup>c</sup>

<sup>b</sup>—Preliminary report.

<sup>c</sup>—Based on shares now outstanding.

<sup>f</sup>—Based on shares outstanding at close of period.

There is a possibility for good gains by some relatively depressed Eastern roads. A further rise in bond yields is ahead, but more stability seems likely after spring. Straight-income utility stocks might be subject to a moderate further dip; but electric and gas growth utilities can hardly be significantly affected. Allowing for their weight in the Dow utility average, it should continue to hold up well.

## Big

It probably is a 10-to-1 bet that most of the stocks which rose most in 1956 will not be the leaders this year, if they come out on the plus side at all. With gains ranging from close to 100% to slightly over 300%, they were, in order of scope of advance, Lukens Steel, Cooper-Bessemer, New York Shipbuilding, Allegheny Ludlum Steel and West Indies Sugar. On top of large earlier advance, three of this department's perennial favorites did all right in 1956 with approximately the following gains: Outboard Marine 90%, Halliburton 44%, McGraw-Hill 30%. We are not yet ready to call it quits on these stocks, even though their 1957 potentials appear well under 1956 gains. McGraw-Hill might come closest to last year's performance, considering earnings prospects and the fact that, at current price of 35 $\frac{1}{4}$ , down 7 $\frac{1}{2}$  points from recent high, the ratio is less than 11.4 times estimated 1956 profit. That is below the average 30 Dow industrials, whereas the record justifies a somewhat higher multiple of earnings. We would guess that the stock could sell 20% or more above its present level at some time within this year.

## Inflation

Despite the hazards in common stocks, a good many investors prefer them to bonds, and are sour on the latter because of the depreciation in value of capital put into them in the past — and also in the purchasing power of the interest return — as a result of the inflation spiral which, regardless of variations in its tempo, seemingly has become a part of our way of life since the start of World War II. However, no stock can be an inflation hedge unless earnings and dividends grow by at least as much as the purchasing value of the dollar declines. Many stocks have never got back near their 1929 highs, and many have remained under 1946 tops. The loss of the holder is a certain percentage in points, plus an additional percentage for depreciation of the dollar since the purchase date. Conservative investors in some income stocks have been victimized by inflation about as much as bondholders have. That is so where dividends do not grow over the years, or grow very little; with the result that the stock moves up and down in the market cycle, without any enduring growth in value. If you take the risk of more long-pull inflation seriously but are inclined to conservatism in management of your capital, you will neither buy a static-dividend stock — no matter whether it yields 5.5% or 6%, and regardless of how secure the dividend is — nor assume the risk inherent in cyclical-type stocks. Nor will you buy excessively priced growth stocks at yields not greatly above the microscopic. What to do? There is a sound compromise: Buy electric utility and gas-utility growth stocks. A number are available at

yields of 4% to 5%, the risk is well below the average among industrials and rails generally, and long-run growth of dividends and market value, even though at a moderate rate, should keep up with, if not ahead of, long-run inflation.

## Examples

Measured by the consumers' price index, the purchasing value of the dollar has been cut by about 50% since 1939, and by over 13% even since 1949. Thus, for a stock to keep up with inflation requires a 100% rise in market value and in dividend payments since 1939 and about 26% in both since 1949. Among the sizable number of electric utility and natural-gas stocks which have kept up with, or run ahead of, inflation since 1939 — or since subsequent dates of public listing — a few examples are American Gas & Electric, Central & South West, Middle South Utilities, Southwestern Public Service, Consolidated Natural Gas, Mississippi River Fuel, Oklahoma Natural Gas and Southern Natural Gas. All have good long-term growth prospects. All are available at current yields ranging from roughly 4% to 5%. Yields are much lower on such growth utilities as Florida Power Corp., Florida Power & Light, Houston Lighting & Power and Texas Utilities, all of which have outrun inflation and probably will continue to do so.

## A Sound Buy

Southwestern Public Service operates in a contiguous area of Texas, New Mexico and Oklahoma. Its 31% equity ratio is moderately below average, reflecting management preference for economical bond financing of expansion, holding down periodic equity financing and its consequent temporary dilution of per-share earnings. Stockholders have been well rewarded. Since 1946 growth of revenue has been well over double that of the power industry as a whole, growth of per-share earnings, at about 225%, around 43% above the industry's average. There have been 12 increases in annual dividend rate in the last 14 years, with a recent boost from \$1.32 to \$1.40. More boosts from time to time are, no doubt, ahead. Earnings were \$1.64 a share for the fiscal (Please turn to page 556)

### DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
Kelvinator of Canada .....	Year Sept. 30	\$ .93	\$1.28
Murphy Corp. ....	9 mos. Nov. 30	.33	.35 <sup>1</sup>
National Presto Industries .....	Year Sept. 30	.56	1.26
Warner Bros. Pictures .....	Year Aug. 31	.84	1.61
Chi., Burlington & Quincy R.R. ....	11 mos. Nov. 30	10.75	11.71
Western Maryland Rwy. ....	11 mos. Nov. 30	9.07	9.08
Cunningham Drug Stores .....	Year Sept. 30	4.07	4.57
Union Chemicals & Materials .....	9 mos. Nov. 30	3.28 <sup>1</sup>	3.40 <sup>1</sup>
United Board & Carbon .....	24 wks. Nov. 17	1.10	1.39
Wisconsin Central R.R. ....	11 mos. Nov. 30	8.04	9.11

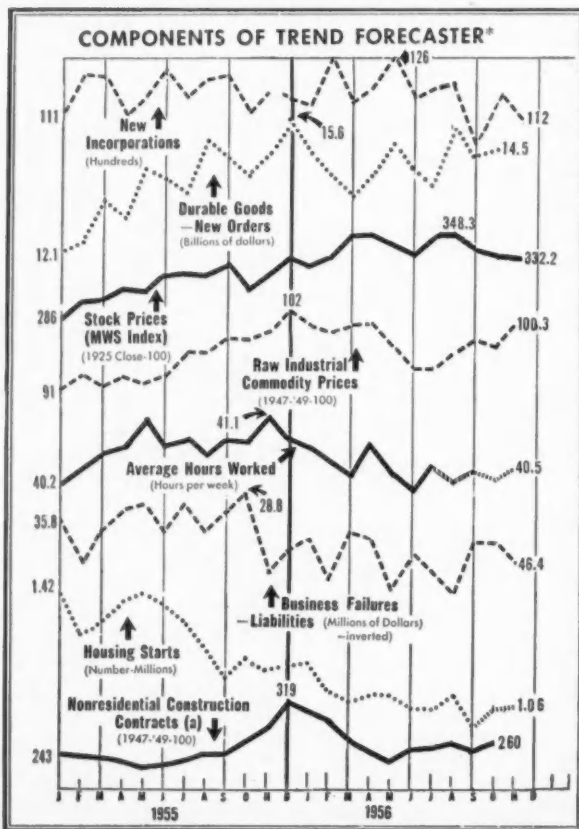
<sup>1</sup>—Based on shares now outstanding.

<sup>2</sup>—Based on shares outstanding at close of period.

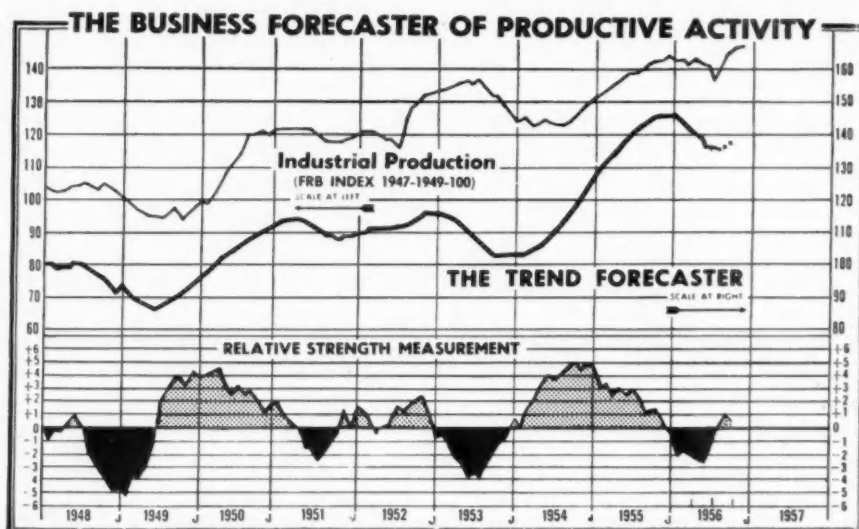
# the Business

## Business Trend Forecaster\*

\*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



\*—Seasonally adjusted except stock and commodity prices.  
(a)—3 month moving average.



This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see *Components of Trend Forecaster*) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our *Business Trend Forecaster* of increasing usefulness both from the investment and business standpoints.

### Current Indications of the Forecaster

Component series of the *Trend Forecaster* have continued to behave erratically in recent months. On the basis of still-preliminary estimates, it appears that the *Relative Strength Measurement* has clung close to the zero range throughout the last half of 1956. If so, the pattern traced out by the *Trend Forecaster* will bear an increasing resemblance to the months of early 1948, when business was on a plateau that eventually ended in a relatively mild recession.

In the fourth quarter, the components of the *Trend Forecaster* have behaved slightly more strongly than in the third quarter. Raw commodity prices rose almost throughout the quarter (although they have been declining for the past several weeks). Housing starts, while they are far from being in a recovery, have at least lost the downward momentum they had in the third quarter. In October and November new orders for durable goods rose from their reduced September level. On the other hand, stock prices, new incorporations and business failures have shown more weakness than strength. The *Trend Forecaster* itself is in a barely perceptible uptrend, and preliminary estimates for late 1956 do not yet suggest any important new stimulus to general business emanating from the Suez area crisis. For the near term, the *Forecaster* still suggests nothing better than stability in total business activity.

# Analyst

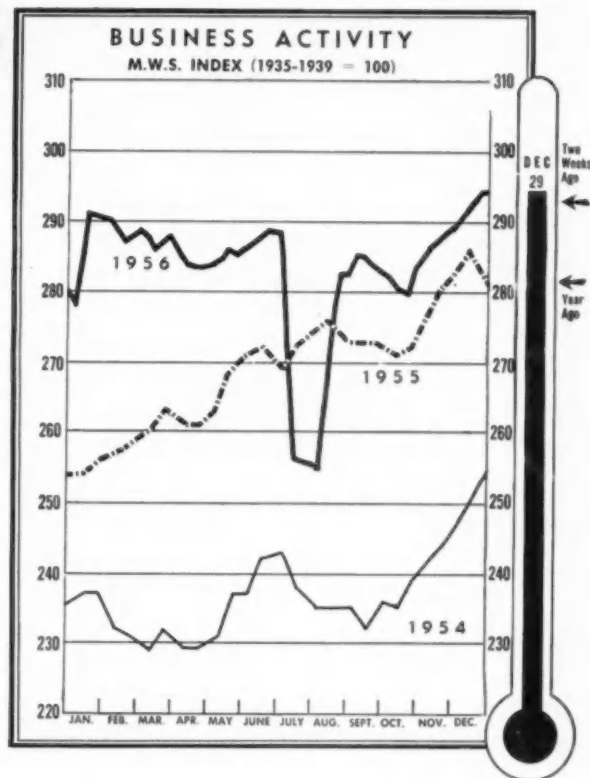
## CONCLUSIONS IN BRIEF

**INDUSTRY** — The slow uptrend of the past five months is emerging onto a plateau, as auto production stops rising and machinery output continues stable at a very high level. Some small downward adjustments are now occurring in selected industries.

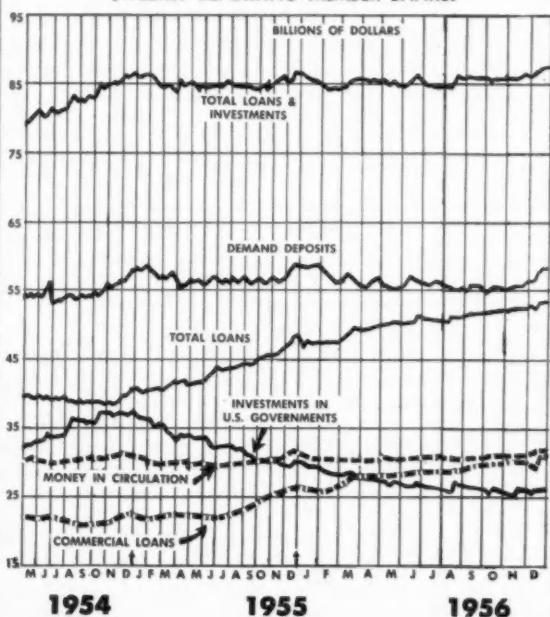
**TRADE** — Christmas volume showed a moderate plus over a year ago, thanks to strong showing in last few weeks. Price resistance and consumer reluctance was apparent; for the next several months, good but not sensational volume is expected in soft goods, while hard goods, such as autos, may lag.

**MONEY AND CREDIT** — With seasonal demands past their peak the market remains tight, and will stay tight through March tax dates. The Federal Reserve is now under pressure to start loosening, to take up slack in the economy as it develops.

**COMMODITIES** — Waning fears of new inflation coming out of Suez are pressing down on selected commodity prices (notably scrap steel). For the next three months, no general wholesale price trend is apparent: price resistance by consumers and purchasing agents is blocking new rises. (Further slight rise in consumer prices is still likely.)



## MONEY AND BANK CREDIT (WEEKLY REPORTING MEMBER BANKS)



**A**nalysts with very creditable forecasting records are now phrasing the 1957 outlook in terms of some weakness in private business, offset by an unusually large increase in spending by Federal, state and local governments. The **private weaknesses** are located in **business spending for plant and equipment**; despite the sizeable increases shown in recently published surveys, the month-to-month trend of these outlays is now expected to turn down within the next two quarters. A majority now also expect that **business demand for inventory will have to be adjusted downward** some time during the coming year, probably around mid-year. It is pointed out that steel is now flowing into inventory at a rate of perhaps 9 million tons a year, or about 10% of finished steel production. Finished goods inventories in many consumer lines—notably television—are also heavy, and production adjustments to reduce inventory are already being made. In soft goods, retail inventories are ample in virtually all lines. Even in automobiles, recent sales rates imply a substantial buildup of dealer stocks by the end of the first quarter.

Also noteworthy is the widespread feeling that **tight money will be much more effective in 1957** than it appeared to be in 1956 in curbing the demands of buyers. State and local governments are expected to float debt to the extent they require it, despite the interest costs. But many private marginal buyers are expected to be priced out of the money market and to forego expansion plans or credit purchases.

On the other side of the ledger is the clear indication that **Federal spending, for defense as well as for other purposes, is now advancing**. The reported budget proposals for fiscal 1958 imply an increase of perhaps \$3 billion in the annual spending (Please turn to following page)

# Essential Statistics

## THE MONTHLY TREND

	Unit	Month	Latest Month	Previous Month	Year Ago
<b>INDUSTRIAL PRODUCTION* (FRB) —</b>	1947-'9-100	Nov.	147	146	143
Durable Goods Mfr.	1947-'9-100	Nov.	166	164	161
Nondurable Goods Mfr.	1947-'9-100	Nov.	131	130	130
Mining	1947-'9-100	Nov.	130	129	125
<b>RETAIL SALES*</b>	\$ Billions	Oct.	16.1	16.0	15.8
Durable Goods	\$ Billions	Oct.	5.5	5.4	5.8
Nondurable Goods	\$ Billions	Oct.	10.6	10.7	10.0
Dep't Store Sales	1947-'9-100	Oct.	122	129	122
<b>MANUFACTURERS'</b>					
New Orders—Total*	\$ Billions	Nov.	29.6	28.9	28.3
Durable Goods	\$ Billions	Nov.	15.3	14.6	14.7
Nondurable Goods	\$ Billions	Nov.	14.3	14.3	13.6
Shipments*	\$ Billions	Nov.	28.8	28.3	27.3
Durable Goods	\$ Billions	Nov.	14.4	14.2	13.7
Nondurable Goods	\$ Billions	Nov.	14.4	14.1	13.6
<b>BUSINESS INVENTORIES, END MO.*</b>	\$ Billions	Oct.	87.1	86.5	80.9
Manufacturers'	\$ Billions	Oct.	50.7	50.1	45.4
Wholesalers'	\$ Billions	Oct.	13.1	13.0	12.2
Retailers'	\$ Billions	Oct.	23.3	23.4	23.3
Dept. Store Stocks	1947-'9-100	Oct.	142	139	130
<b>CONSTRUCTION, TOTAL</b>	\$ Billions	Nov.	3.8	4.1	3.7
Private	\$ Billions	Nov.	2.7	2.8	2.7
Residential	\$ Billions	Nov.	1.3	1.4	1.4
All Other	\$ Billions	Nov.	1.4	1.4	1.3
Housing Starts*—a	Thousands	Nov.	1,060	1,050	1,179
Contract Awards, Residential—b	\$ Millions	Nov.	625	656	726
All Other—b	\$ Millions	Nov.	1,065	1,050	1,071
<b>EMPLOYMENT</b>					
Total Civilian	Millions	Nov.	65.3	66.2	67.2
Non-Farm	Millions	Nov.	52.4	52.4	51.3
Government	Millions	Nov.	7.3	7.3	7.0
Trade	Millions	Nov.	11.5	11.3	11.2
Factory	Millions	Nov.	13.3	13.4	13.5
Hours Worked	Hours	Nov.	40.6	40.7	41.2
Hourly Earnings	Dollars	Nov.	2.03	2.02	1.93
Weekly Earnings	Dollars	Nov.	82.42	82.21	78.50
<b>PERSONAL INCOME*</b>	\$ Billions	Nov.	333.6	332.5	314.5
Wages & Salaries	\$ Billions	Nov.	231	230	217
Proprietors' Incomes	\$ Billions	Nov.	52	52	50
Interest & Dividends	\$ Billions	Nov.	30	30	28
Transfer Payments	\$ Billions	Nov.	19	19	18
Farm Income	\$ Billions	Nov.	16	16	15
<b>CONSUMER PRICES</b>	1947-'9-100	Nov.	117.8	117.7	115.0
Food	1947-'9-100	Nov.	112.9	113.1	109.8
Clothing	1947-'9-100	Nov.	107.0	106.8	104.7
Housing	1947-'9-100	Nov.	123.0	122.8	120.9
<b>MONEY &amp; CREDIT</b>					
All Demand Deposits*	\$ Billions	Nov.	106.7	106.1	105.4
Bank Debts*—g	\$ Billions	Nov.	78.8	78.7	72.9
Business Loans Outstanding—c	\$ Billions	Nov.	29.9	29.7	25.3
Installment Credit Extended*	\$ Billions	Nov.	3.5	3.4	3.4
Installment Credit Repaid*	\$ Billions	Nov.	3.2	3.2	3.0
<b>FEDERAL GOVERNMENT</b>					
Budget Receipts	\$ Billions	Nov.	4.8	3.2	4.7
Budget Expenditures	\$ Billions	Nov.	5.7	5.0	5.2
Defense Expenditures	\$ Billions	Nov.	3.5	3.7	3.1
Surplus (Def) cum from 7/1	\$ Billions	Nov.	(0.9)	(2.8)	(0.5)

## PRESENT POSITION AND OUTLOOK

rate, and a further increase is implied for fiscal year 1959 (which begins in the middle of calendar year 1958). The net effect of a slowdown in private business and a rise in government outlays is now expected to result in a standoff in the first half of the year, with industrial production clinging to about the current level for the next several months.

## MANUFACTURING PRODUCTIVITY —

Output per manhour in the nation's factories and mines—apparently slowed to a halt in 1956, after unusually rapid gains, approaching 5% per year, in 1954 and 1955. (The long-term gain in productivity for manufacturing industries has been about 3% per year.) But according to recent figures, **productivity is again on the rise at a rapid rate.** A possible explanation for reappearance of the up-trend is the completion of training for many raw recruits brought into the manufacturing labor force during 1956. Another possible reason is that with many industries no longer operating at forced draft, less efficient equipment has been retired, raising the average efficiency of equipment in use. In any event, the up-trend is good news: during 1956, wage increases were equivalent to a 5% increase in labor cost per hour, and this increase was not offset by any improvement in output per manhour. Under those conditions, a price rise was almost mandatory, and rise it did.

**CHRISTMAS SCARE** — In late November and early December, the volume of gift business, measured in dollars, actually ran somewhat behind a year ago, even though prices were up about 3%. That meant that physical volume of sales was running as much as 5% behind a year ago. And that, in turn, meant that retailers were accumulating an unhealthy stockpile of Christmas merchandise. Fortunately, volume turned up sharply in the two weeks before the holiday, and department stores in most regions set new Yuletide records. But retailers contracted a chill from the alternating temperature of retail trade, and are playing it very cautiously for early 1957—some department stores are imposing the strictest inventory controls since the war, to avoid an overhang of inventory and the inevitable markdowns.

**CORPORATE EARNINGS** — Figures for the fourth quarter will not be available for all corporations for another several weeks. However, indications are that total corporate profits, after taxes, turned up somewhat in the fourth quarter, after a

## and Trends

### QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1956			1955
	III Quarter	II Quarter	I Quarter	III Quarter
<b>GROSS NATIONAL PRODUCT</b>	413.8	408.3	403.4	396.8
Personal Consumption	266.8	263.7	261.7	257.8
Private Domestic Invest.	65.1	64.2	63.1	62.3
Net Foreign Investment	1.7	1.7	0.1	0.2
Government Purchases	80.2	78.7	78.5	76.5
Federal	47.2	46.1	46.4	46.6
State & Local	33.0	32.6	32.1	29.9
<b>PERSONAL INCOME</b>	327.0	322.9	317.5	309.6
Tax & Nontax Payments	38.8	38.1	37.3	35.9
Disposable Income	288.2	284.9	280.2	273.8
Consumption Expenditures	266.8	263.7	261.7	257.8
Personal Saving—d	21.4	21.2	18.6	15.9
<b>CORPORATE PRE-TAX PROFITS*</b>	n.a.	42.9	43.7	43.5
Corporate Taxes	n.a.	21.7	22.1	22.0
Corporate Net Profit	n.a.	21.3	21.6	21.5
Dividend Payments	12.3	12.2	11.8	11.0
Retained Earnings	n.a.	9.1	9.8	10.5
<b>PLANT &amp; EQUIPMENT OUTLAYS</b>	36.3	34.5	32.8	29.7

### THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 29	294.0	294.0	282.0
MWS Index—per capita*	1935-'9-100	Dec. 29	226.4	226.4	220.2
Steel Production	% of Capacity	Jan. 5	98.0	94.3	77.6
Auto Production	Thousands	Jan. 5	107.7	119.3	149.1
Paperboard Production	Thousand Tons	Dec. 31*	222	280	212
Lumber Production	Thous. Board Ft.	Dec. 29	120	204	144
Electric Power Output*	1947-'49-100	Dec. 22	221.4	222.6	210.3
Freight Carloadings	Thousand Cars	Dec. 29	488	698	575
Engineering Constr. Awards	\$ Millions	Jan. 3	324	282	160
Department Store Sales	1947-'9-100	Dec. 29	112	265	88
Demand Deposits—c	\$ Billions	Dec. 26	58.2	58.1	58.9
Business Failures	Number	Dec. 27	174	214	174

\*Nine days ending Dec. 31.

\*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 37 states. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (I)—First Quarter.

### THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1956-'57 Range		1956		1957		(Nov. 14, 1936 Cl.—100)		High		Low		1956		1957	
	High	Low	Dec. 27	Jan. 4									Dec. 27	Jan. 4		
300 Combined Average .....	352.4	315.9	335.8	341.6				100 High Priced Stocks .....	244.6	209.2	230.0	231.4				
								100 Low Priced Stocks .....	411.1	378.9	393.4	407.3				
4 Agricultural Implements .....	327.1	242.1	271.5	271.5				4 Gold Mining .....	882.7	637.9	660.2	666.8				
3 Air Cond. ('53 Cl.—100) .....	115.9	98.8	114.8	115.9H				4 Investment Trusts .....	171.2	150.8	161.8	169.9				
9 Aircraft ('27 Cl.—100) .....	1423.5	1064.6	1423.5	1380.8				3 Liquor ('27 Cl.—100) .....	1076.2	954.4	995.0	1044.8				
7 Airlines ('27 Cl.—100) .....	1117.4	908.5	1002.5	1002.5				9 Machinery .....	513.1	370.4	513.1	513.1				
4 Aluminum ('53 Cl.—100) .....	566.7	337.1	422.3	405.4				3 Mail Order .....	217.3	171.2	171.2	174.6				
6 Amusements .....	172.3	144.1	148.8	156.2				4 Meat Packing .....	170.7	127.7	139.8	142.6				
9 Automobile Accessories .....	373.7	334.5	355.9	355.9				5 Metal Fabr. ('53 Cl.—100) .....	213.2	183.3	190.7	190.7				
6 Automobiles .....	52.2	47.1	47.6	49.5				10 Metals, Miscellaneous .....	464.9	383.1	404.7	416.8				
4 Baking ('26 Cl.—100) .....	28.7	25.5	25.8	26.3				4 Paper .....	1312.3	997.3	1039.3	1049.7				
3 Business Machines .....	1171.3	831.5	1028.2	1017.9				22 Petroleum .....	872.3	675.8	823.8	848.5				
6 Chemicals .....	652.3	556.5	598.4	604.4				21 Public Utilities .....	264.0	246.4	246.4	251.3				
4 Coal Mining .....	24.9	19.2	23.7	24.9				7 Railroad Equipment .....	95.1	84.3	87.0	88.7				
4 Communications .....	114.3	93.4	95.5	98.4				20 Railroads .....	82.0	69.8	70.6	72.7				
9 Construction .....	140.0	112.3	124.3	126.8				3 Soft Drinks .....	544.8	423.1	428.4	445.5				
7 Containers .....	853.7	731.7	754.6	769.7				12 Steel & Iron .....	393.0	283.8	393.0	393.0				
7 Copper Mining .....	361.3	283.7	304.6	304.6				4 Sugar .....	98.8	60.1	95.0	98.8H				
2 Dairy Products .....	122.3	107.0	107.0	109.1				2 Sulphur .....	950.2	758.4	840.6	840.6				
6 Department Stores .....	93.7	83.4	83.4	84.2				11 Television ('27 Cl.—100) .....	44.5	33.6	33.6	34.6				
5 Drugs-Eth. ('53 Cl.—100) .....	198.3	165.0	182.5	186.2				5 Textiles .....	184.4	138.3	140.1	145.7				
6 Elec. Eqp. ('53 Cl.—100) .....	228.6	178.9	226.3	228.6H				3 Tires & Rubber .....	201.0	169.9	186.4	186.4				
2 Finance Companies .....	613.7	530.3	536.2	536.2				5 Tobacco .....	96.7	85.3	85.3	88.7				
6 Food Brands .....	306.1	266.4	269.4	272.1				2 Variety Stores .....	298.8	258.2	258.2	263.4				
3 Food Stores .....	176.9	157.6	167.2	165.5				15 Unclassif'd ('49 Cl.—100) ....	164.2	144.8	150.8	159.8				

H—New High for 1956-1957.

### PRESENT POSITION AND OUTLOOK

notable decline in the third quarter (these figures are before certain inventory adjustments: for the full trend of profits, see article beginning on page 508. The fourth quarter increase should not be treated too enthusiastically, however. It reflects the recovery of earnings in the steel industry, which had been hit by a costly strike in the third quarter. And it also reflects large profits in automobile manufacturing, earned through the restocking of dealers with new models (in the third quarter, automotive earnings broke sharply, as a result of extended shutdowns for model changeover). **Viewed broadly the trend of earnings seems to be slowly downward for early 1957.**

**EXPORT BOOM**—In the latest months for which figures are available, total U.S. exports are running fully 20% above a year ago (and these figures antedate the burst of oil exports since Suez). Imports are up too, but by less than 10%. Result, the U.S. merchandise export surplus has widened sharply, pulling dollars from the rest of the world and applying a strong stimulant to our own economy.

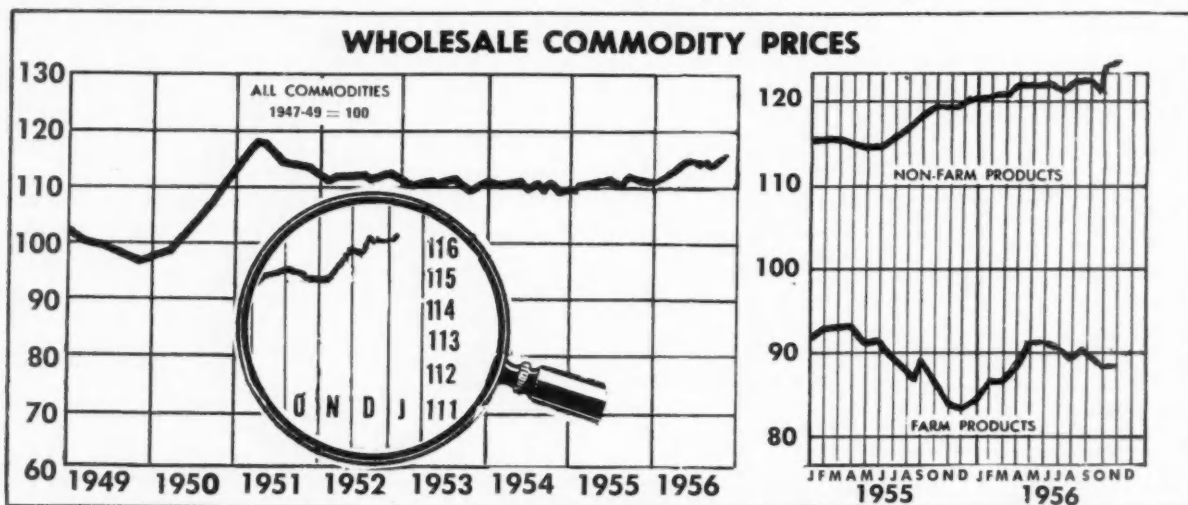
**HOUSING STARTS**—In late 1956 were still running at close to a 1.0 million a year rate. V.A. and F.H.A. financing applications have been off sharply in recent months. **Starts will probably drift lower in the first quarter of 1957.**

# Trend of Commodities

**SPOT MARKETS**—Spot prices of most sensitive commodities were lower in the two weeks ending January 4. Food prices strengthened, however, with the result that the Bureau of Labor Statistics' Index of 22 leading commodities rose 0.1% during the period. At the same time, raw industrial materials lost 0.5%, metals were down 0.8% and textiles were off 0.6%. The period was marked by a 35 cent increase in crude oil prices, reflecting increased European demand for our oil as the result of the contraction in supply from the Middle East. The price of pulp was raised \$4 a ton, despite protests from publishers who are being squeezed by rising costs. Aside from the aforementioned specialized increases, most sensitive commodities are still retreating, in reflection of top-heavy inventories and high production in many lines.

**FUTURES MARKETS**—Futures markets were mostly firm in the fortnight ending January 4. The President's proposed program for the Middle East emboldened buyers who stressed the effect on prices of continuing uncertainties and tensions in that vital area of the world.

New crop wheat futures were buoyant in the two weeks ending January 4 and the September option added 5 cents to close at 230 $\frac{1}{4}$ . The new wheat crop is faced with a number of unfavorable developments including inadequate sub-soil moisture and danger of wind erosion. Old crop options were little changed as traders waited for word on the amount of the bread grain that has gone into the loan. With prices above loan levels, it is doubtful that much more wheat will be impounded in the support program.



**BLS PRICE INDEXES**  
1947-49=100

	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
<b>All Commodities</b>	Jan. 1	116.4	116.1	111.9	60.2
<b>Farm Products</b>	Jan. 1	88.4	87.6	84.1	51.0
<b>Non-Farm Products</b>	Jan. 1	124.7	124.7	120.4	67.0
<b>22 Basic Commodities</b>	Jan. 4	92.5	92.4	90.1	53.0
<b>9 Foods</b>	Jan. 4	83.5	82.6	74.8	46.5
<b>13 Raw Ind'l. Materials</b>	Jan. 4	99.2	99.7	102.2	58.3
<b>5 Metals</b>	Jan. 4	122.8	123.8	130.3	54.6
<b>4 Textiles</b>	Jan. 4	85.3	85.8	80.9	56.3

**MWS SPOT PRICE INDEX**

14 RAW MATERIALS  
1923-1925 AVERAGE=100

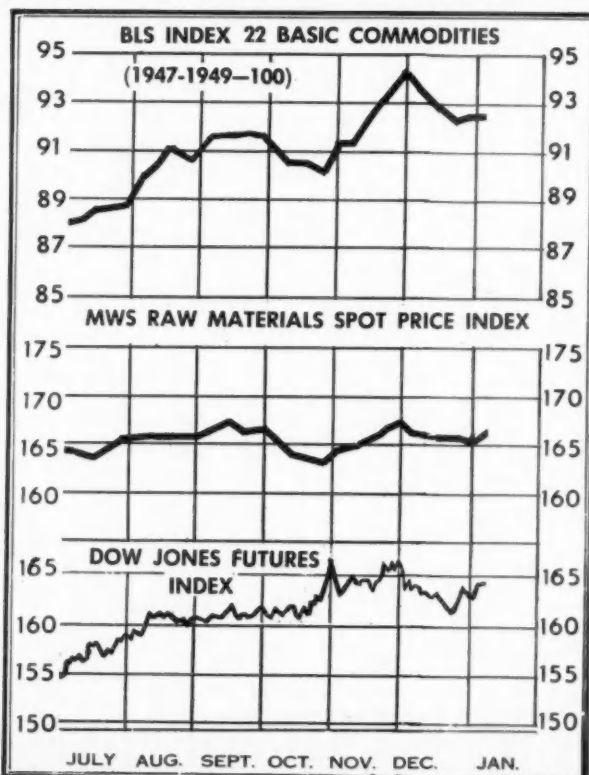
AUG. 26, 1939=63.0 Dec. 6, 1941=85.0

	1956	1955	1953	1951	1945	1941
High of Year	169.8	164.7	162.2	215.4	98.9	85.7
Low of Year	163.1	153.6	147.9	176.4	96.7	74.3
Close of Year		164.7	152.1	180.8	98.5	83.5

**DOW-JONES FUTURES INDEX**

12 COMMODITIES  
AVERAGE 1924-1926=100

	1956	1955	1953	1951	1945	1941
High of Year	166.7	173.6	166.5	214.5	106.4	84.6
Low of Year	149.8	150.7	153.8	174.8	93.9	55.5
Close of Year		153.1	166.8	189.4	105.9	84.1



# INDIVIDUAL PRICE MOVEMENTS IN 1956 AMONG THE 300 STOCKS IN THE MAGAZINE OF WALL STREET'S COMBINED INDEX

## STOCKS SHOWING ADVANCES\*

	1956 High	1956 Low	1956 Last	Increase in Points	Percentage Advance
Air Reduction	52	36½	50½	+10¼	+25%
Aluminum Ltd.	150	99½	120	12½	12
American Cyanamid	79½	61	79½	12	18
American Home Products	143	84½	131	41½	46
Amer. Smelt. & Refining	59½	46¼	57½	7½	15
Amer. Steel Foundries	51	39¼	45¼	2	5
Anaconda	87¼	65	72	1½	2
Armco Steel	69½	46¼	65½	11½	20
Atlantic Refining	47½	35½	44½	7½	22
Bendix Aviation	64½	48½	62½	5½	9
Bethlehem Steel	198¼	140½	198½	34½	21
Boeing Airplane	65½	34½	61½	21½	54
Borg Warner	50½	38½	44½	2½	7
Bucyrus Erie	56½	38½	51½	8½	20
Burroughs Corp.	46½	29½	38½	7½	24
Carrier Corp.	62½	49½	57½	7½	2
Chesapeake & Ohio	69¼	53¼	65¼	11½	21
Continental Oil	138	94	126½	26½	26
Curtiss-Wright	49½	26½	46½	17½	59
Electric Storage Batt.	45¼	32	33	¾	2
Fedders Quigan	14¼	10	14½	4½	39
Freeport Sulphur	97¼	78	94½	3¼	4
General Dynamics	59½	37½	57½	13½	31
General Electric	65½	52½	60½	2½	4
Goodyear Tire & Rubber	84	60	83½	18½	28
Gulf Oil	147½	83¼	123½	31½	34
International Harvester	41½	33½	38½	2	5
International Nickel	112½	78	105¼	23½	28
International Tel. & Tel.	37½	29¼	30¼	½	2
Kennecott Copper	147¼	113	127½	10	8
Loew's	25½	18½	20¼	1	5
Lone Star Cement	98	64½	87¼	16¼	23
Martin, G. L.	45¼	31	41¼	3¼	10
Merck	35	24½	31¼	3½	13
National Distillers	29½	20½	26½	5	23
National Steel	77½	64	77¼	6	8
Pan Amer. World Air	21¼	16½	18¾	1½	9
Phelps Dodge	76½	54½	63½	5	9
Reynolds Tobacco "B"	57¼	49	54¼	7½	2
St. Regis Paper	60½	40½	46½	3	7
Safeway Stores	71½	50½	69½	12½	22
Sinclair Oil	72¼	55½	61½	3½	6
Southern Railway	51	38½	44½	¾	2
Standard Oil of Ind.	65	48½	62½	11½	22
Symington-Gould	12¼	8¼	11½	2½	29
Tide Water Oil	47¼	33	37	3¼	10
United Air Lines	44¼	35½	42¼	3¼	8
U. S. Steel	73¼	51½	73½	15½	27
Vanadium Corp. of Amer.	55½	38¼	50	6¼	14
Walworth Co.	20¼	12¼	17½	3½	19
Warner Bros. Pictures	29¼	18½	28¼	8½	46
White Motor	50½	36¼	46¼	7½	20
Wilson & Co.	16½	12½	15	¾	3
Worthington Corp.	60½	41½	56½	8½	17
Youngstown Sheet & Tube	131½	83½	123	27¼	28

\*Adjusted for stock dividends and stock splits.

## STOCKS SHOWING DECLINES\*

	1956 High	1956 Low	1956 Last	Decline in Points	Percentage Decline
Abbott Laboratories	45½	37½	38½	— 3½	— 8%
A.C.F. Industries	67½	55	58¼	9½	14
Admiral Corp.	22½	12½	12¼	9½	42
Allied Chemical	129½	88	97½	18¾	16
Allied Stores	56¼	42½	43½	13½	—23%

## STOCKS SHOWING DECLINES\*—continued

	1956 High	1956 Low	1956 Last	Decline in Points	Percentage Decline
American Airlines	26¼	22	23½	¾	3
Amer. Broadcast. Par.	32½	21½	24½	2½	11
American Cable & Radio	7½	4¼	4¼	1½	24
American Can	49½	40	41½	5½	12
American Motors	8½	5¼	5¼	3½	40
American Rad. & S.S.	24¼	16½	17½	6¼	27
Amer. Tel. & Tel.	187½	165	171½	9	5
American Tobacco	84¼	68½	73½	7½	10
American Viscose	51¼	31¼	35½	13	27
Armour & Co.	24	15¼	16	1½	9
Baltimore & Ohio	53	41¼	45½	1½	4
Borden Co.	64	54	57	4	7
Braniff Airways	14½	10	11½	3½	23
Bridgeport Brass	54¼	35½	35½	12¼	26
Budd Co.	21¼	17½	18½	2½	14
Celanese Corp.	21½	13½	14¼	6½	30
Chrysler	87	60	70	16½	19
C.I.T. Financial	47¼	39½	41½	4½	11
Climax Molybdenum	78½	60	67¼	¾	1
Commercial Credit	54	44½	47½	3½	6
Commonwealth Edison	44½	38¼	39½	2½	5
Continental Baking	36½	28½	29½	6½	17
Crane Co.	42½	33	33¼	4	11
Du Pont	237	175½	192¼	38¼	17
Eastern Air Lines	57¼	43½	49¼	¼	1
Flintkote	41	33½	35	3½	9
General Motors	49½	40¼	44	2½	5
Goodrich (B. F.)	89¼	66	73¼	13	15
Grumman Aircraft	35½	27½	30¼	5¼	15
Homestake Mining	40	31¼	34¼	¾	2
Inspiration Copper	69¼	52¼	52½	5½	9
International Paper	144½	98½	105	8¼	8
Lorillard (P.) Co.	21½	15½	15½	4¼	24
Minneapolis-Moline	24½	13¼	16½	8½	34
National Biscuit	39½	34½	35	3½	10
New York Central	47¼	32¼	33½	13	28
N. Y. New Haven & Hart.	30	12½	14¼	15	51
Oliver Corp.	17½	11	11½	4½	28
Paramount Pictures	36½	27½	29	7½	21
Pepsi Cola	26¼	18½	19½	3½	14
Philco Corp.	36½	16	16¾	16½	50
Pullman	74¼	62½	63¼	10	14
Radio Corp. of Amer.	50½	33½	35½	11½	25
Republic Pictures	8½	5	6	2	25
Richfield Oil	84¼	66½	67½	11¼	14
St. Joseph Lead	52	38¼	38½	11½	23
St. Louis-San Francisco	33	24½	25	6½	20
Socony Mobil Oil	82½	49¼	55	9½	15
Southern Calif. Edison	54½	45	45½	5½	11
Spiegel	16½	11½	11½	4½	28
Stewart Warner	39½	30¼	33½	2½	7
Stokely Van Camp	22¼	17½	19	1½	6
Studebaker-Packard	10½	5¼	6½	3¼	3
Sunshine Mining	10½	6½	6½	3½	3
Texas Gulf Sulphur	38¼	28¼	30½	7	19
Textron-American	29¼	20¼	21¼	3½	14
Trans World Airlines	28½	16½	19	6¼	25
Twentieth Century Fox	29¼	21½	23¼	1½	6
United Cigar Whelan	47½	4½	4½	1½	3
United Fruit	55	43½	44½	8½	16
U. S. Industries	19¼	15	15½	¾	4
U. S. Rubber	60½	42½	48½	3¼	6
Western Union	22½	17½	18½	2¼	13
Westinghouse Air Brake	36½	26½	29½	1½	4
Westinghouse Electric	65½	50½	57½	2½	4
Woolworth (F. W.) Co.	50½	43¼	43½	3½	8
Zenith Radio	141¼	101	104	36	26

\*—Adjusted for stock dividends and splits.

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but brief.
2. Confine your requests to three listed securities at reasonable intervals.
3. No inquiry will be answered which does not enclose stamped, self-addressed envelope.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

## Emerson Electric Manufacturing Co.

"Please indicate the nature and business of Emerson Electric Manufacturing and I would appreciate information as to working capital position, order backlog, etc." S. C., Kansas City, Mo.

Emerson Electric Manufacturing Company of St. Louis is a manufacturer of small motors and electric fans used in appliances and other machines. The company also is active in electronics and avionics. Defense orders have been substantial.

Reported net earnings were \$2,247,926, after all charges, for the fiscal year ended September 30, 1956. This compares with net earnings of \$1,228,263 for the previous fiscal year. The net earnings for the latest year represent an increase of approximately 83% from earnings for the prior fiscal year. Fiscal 1955 was affected by labor strikes which curtailed production for some twelve weeks during that year. However, the net earnings for fiscal 1956 are the highest in the history of the company.

Sales in the 1956 fiscal year were \$56,498,869, compared with sales of \$40,347,929 in the 1955 fiscal year. This represents an increase of 40% over total sales for the 1955 fiscal year which, of course, was affected by strikes. The total sales volume for the current fiscal year was the high-

est in the entire post-war period since 1945. In the latest fiscal year, sales of commercial products increased 37% to \$38,283,328, compared with commercial sales of \$27,940,643 in the previous fiscal year. Sales of the Electronics and Avionics division increased approximately 47% to \$18,215,561 in the current fiscal year from a volume of \$12,407,286 in the previous fiscal year.

Earnings before income taxes were \$4,562,926 in the 1956 fiscal year, an increase of 80% from earnings before income taxes of \$2,528,263 in the 1955 fiscal year which, as stated above, was affected by strikes. However, substantial improvement in the profit margin on commercial business is attributed to the increase in sales volume combined with the benefits obtained from product redesign and extensive cost and expense control program, which the company has been pursuing in the past several years. The current year saw a continuation of rising prices of the company's principal materials without adequate compensation by increased selling prices.

Net earnings of \$2,247,926 in 1956 fiscal year are equivalent, after payment of dividends on preferred stock, to \$4.35 per share on the average of 502,125 shares of common stock outstanding during the fiscal year prior

to the 25% stock distribution in the form of a stock dividend on September 28, 1956. This compares with earnings of \$2.33 per share in 1955 on the 500,000 shares of common stock outstanding during that fiscal year. The net earnings in the 1956 fiscal year are equivalent to \$3.49 per share on the average number of common shares outstanding during the 1956 fiscal year, adjusted for the September 28, 1956, stock distribution.

Working capital increased to \$12,357,830 at September 30, 1956, compared with \$9,913,131 at September 30, 1955. Part of the increase in working capital is the temporary result of a borrowing of \$1,650,000 under a long-term institutional loan.

Sales of commercial products are expected to increase significantly in the present fiscal year, and sales of defense products and engineering, principally in the fields of electronics and avionics, are expected to increase again by approximately 50% in the coming year. The company is presently operating under a three-year contract, expiring October 1, 1958, with its principal union and wages for the duration of this contract have been agreed upon with the union.

At present, unfilled orders total more than \$27 million of which approximately 59% is for electronics and avionics.

Current quarterly dividend is 35 cents per share.

## West Virginia Pulp & Paper Co.

"Enclosed find check for \$20 for subscription renewal. I am interested in receiving information on West Virginia Pulp & Paper Co., particularly as to sales and earnings and outlook for the company in 1957." R. M., Buffalo, N. Y.

West Virginia Pulp & Paper Co., a leading paper and paperboard producer, operates six pulp and paper mills and owns large acreage of timberlands, principally near major plant in South

(Please turn to page 557)

# One of man's best friend's best friends—*tin plate!*

Dachshund or Dalmatian, Siamese or parrakeet,  
petdom finds nutritious canned foods hearty fare

ACCORDING to Frank Dittrich, publisher of *All Pets Magazine* and a spokesman for the billion-dollar-plus pet industry, a quick rundown on pets cherished by fond owners reveals some real eyebrow-raisers. Tame alligators, for example. Also, bears, snakes and skunks (at least one pair of the latter being used by a determined household as "watchdogs").

## 48 Million Cats and Dogs

"As huge as the pet industry is today," says Mr. Dittrich, "it's still in its infancy. There are about 26 million household or around-the-place cats in the U.S. alone. There are some 22,500,000 dogs. The population of nearly all the recognized pets in the animal, bird and fish families is growing prodigiously."

Pet birds in the U.S. total close to 20 million, with the flamboyant parrakeet (or budgerigar) numbering some 14 million. American pet fanciers go in very extensively for tropical fish, too.

Today's pets, especially cats and dogs, live longer, Mr. Dittrich points out, and in general enjoy far better health. Two good reasons are (1) continuing advances in veterinary medicine, and (2) better, more nutritious diet.

## Where Canning Comes In

The canned pet food industry in particular plays a star role in the improved care of pets. Since horse meat was first tinned back in the 1920's by P. M. Chappel for dog consumption, the industry has grown to a total of more than 100 canners of pet food, with a '55 output of well over 1½ billion cans.

Of course, horse meat today is just one of the basics. There's beef, including heart, liver, kidneys. Tripe and fish are also some of the sanitariously canned mainstays. And there is canned bird seed on the market today,



vacuum-packed for protection against weevils and mold. Condensed or evaporated milk in cans, too, is a pet favorite.

A notable example of the strides made in improving pet health is today's highly successful "prescription diets." These prescribed combinations of foods are for the correction of specific ailments that may be undermining your dog's well-being. The diets are sold only in cans where their contents are spoilproof, protected against breakage, and so easy to handle and to store.

## National's Role

The "tin" can is really steel (about 99%), thinly coated with tin as a corrosion-resistant. It takes tin plate in extraordinary quantities to make the more than 40 billion cans the canning industry now uses each year to keep food and many other products handy

—and safe. And our Weirton Steel Company is a major supplier of both electrolytic and hot-dipped tin plate.

Of course, tin plate is just one of the many steels made by National Steel. Our research and production men work closely with customers to provide steels for the better products of all American industry.

At National Steel, it is our constant goal to produce still better and better steel of the quality and in the quantity wanted, at the lowest possible cost to our customers.

### SEVEN GREAT DIVISIONS WELDED INTO ONE COMPLETE STEEL-MAKING STRUCTURE

Great Lakes Steel Corporation • Weirton Steel Company • Stran-Steel Corporation • Hanna Iron Ore Company • National Steel Products Company • The Hanna Furnace Corporation • National Mines Corporation

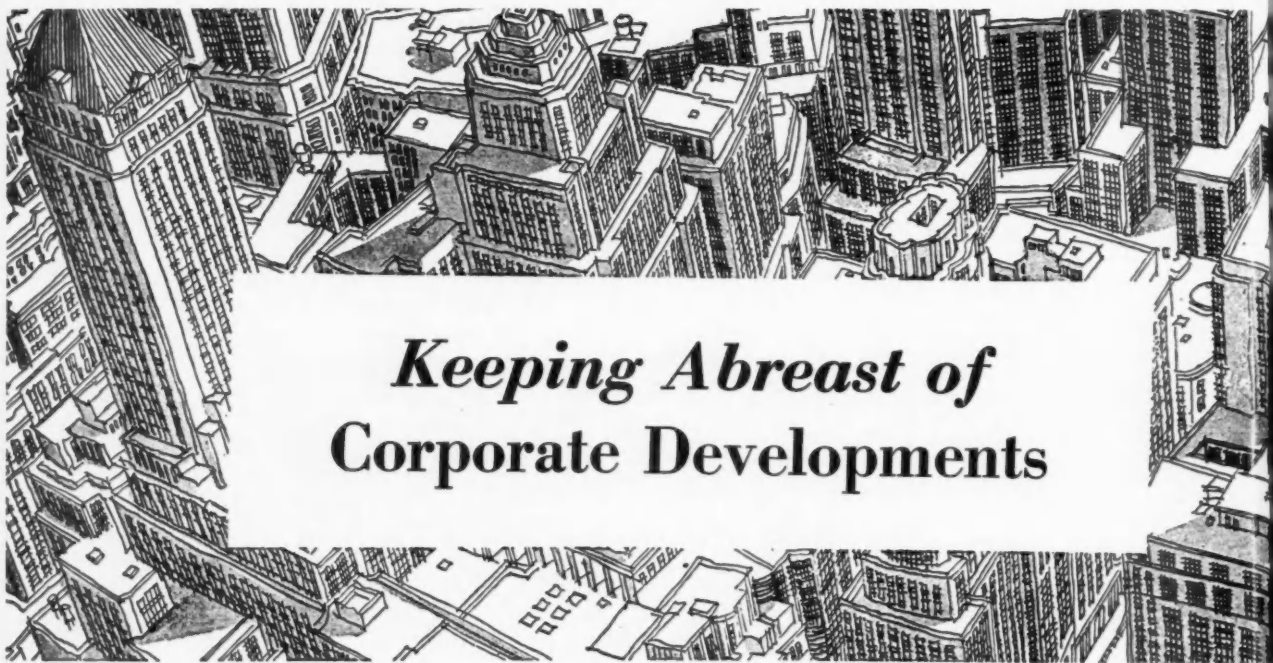
NATIONAL STEEL

GRANT BUILDING



CORPORATION

PITTSBURGH, PA.



## Keeping Abreast of Corporate Developments

The dying days of the old year saw many lively issues setting new altitude records. Let's look at a few that may still be on their way up in the world.

**Lukens Steel Co.** Stock, in the opinion of many the "Baby Doll" of the 1956 market, soared from year's low of 42 to a hefty new high of 182 $\frac{3}{8}$  in the final transaction of the year. Four days later a 3-for-1 split brought it back into the range of the masses. Not content to rest on its laurels, the management has found in the steel shortage an expansion plan with a built-in solution to the tight money problem. In early spring, construction is to start on facilities which will boost the company's annual rated ingot capacity from 750,000 to 1.1 million tons, according to Charles L. Huston, Jr., president. This "phase A" of Lukens' long-term expansion planning will require about 18 months to 24 months to complete. To finance phase A and subsequent parts of a 20-year expansion plan, Lukens has turned to its customers for some \$39 million of financing. General Electric, which buys heavy plate and various types of specialties for use in turbines and heavy machinery from the company, has kicked off the ball with a \$15 million commitment. A number of other customers are considering participating in the loans, according to Mr. Huston. He said it seemed logical to go to customers because this action would permit them to get quicker relief from steel shortages if they provided the money themselves which, he said, "involved financial requirements well beyond standard-type borrowing" for Lukens. One flexible aspect of the GE loan gives it an aura of dreamboat financing for Lukens. Amortization of principal is geared to tonnages shipped from the new facilities. The other flexible aspect ties the interest rate to future fluctuations in the money market. Mr. Huston said the loan would call for an interest rate half-a-percentage point above the prime as set by a group of New York banks selected by the subscribers and subject to change annually, in accordance with the

then current prime rate.

**Cooper Bessemer Corp.** Rising from the year's low of 21 $\frac{1}{4}$  (adjusted for 20% split of December 6), stock closed 1956 at 57 $\frac{3}{4}$ . Year-end buoyancy was traceable especially to December 11 announcement revising earnings estimates upward to more than \$7.25 per share on increased number of shares after split. Per-share earnings for 1955 were \$2.69. Final figures are expected to show shipments for 1956 at a new high of \$60 million, compared to \$38.1 million for 1955. Backlog on December 1, 1956, was \$41 million, against \$21.3 million on January 1, 1956. Orders received in first 11 months of 1956 were \$73.1 million, against \$44 million for like period of 1955. Company has undertaken a \$3.5 million expansion and modernization program which will enable it to make its own turbochargers and compressors.

**Bell & Howell Co.** From year's low of 28 $\frac{1}{4}$  stock advanced to bow out 1956 at 50 $\frac{1}{2}$ . Company is expanding production facilities in its main plant in Lincolnwood, outside Chicago, to the tune of \$1.7 million. Construction should be completed this spring.

**International Business Machines Corp.** This big boy of the Big Board, which sold as low as \$400 in 1956, closed the year at 540, 10 points below the new high set on December 31.

**Joy Manufacturing Co.** Up from the year's low of 35 $\frac{1}{8}$ , stock came in for a 1956 finish of 70 $\frac{7}{8}$ . A new split may be in the offing. Stockholders vote this month on authorization to double shares to 6 million. Company said it had no definite purpose in mind for larger number of shares other than to provide more flexibility for the future. New fiscal year, which started October 1, saw backlog much larger than any previous year's beginning. Earnings for fiscal 1956 were \$6.10 (Please turn to page 556)

# Something new under the moon and stars!



Procter & Gamble continues to broaden and diversify  
its family of products . . . an important reason  
for the Company's year-in, year-out growth and progress

The products you see spotlighted above have recently been added to Procter & Gamble's already long list of successful brands.

What we would like you to notice particularly is their *variety*.

They include a toothpaste, a shortening, a household cleanser, a detergent for automatic dishwashers, a brand of peanut butter and the newly-acquired Duncan Hines line of baking mixes.

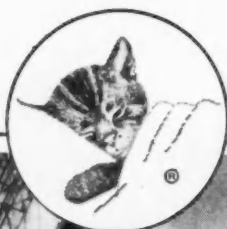
Some of these additions stem naturally from the Company's long success in the manufacture of soaps and detergents. Others—such as Big Top Peanut Butter and the Duncan Hines mixes—are a natural outgrowth of Procter & Gamble's interest in the production of shortenings and edible oils. All of them fit logically into the Company's established manufacturing operations; all of them call for the marketing and merchandising skills de-

veloped through experience in some of the most highly competitive businesses in America.

In Procter & Gamble's research laboratories, other new products are constantly being developed with a view to extending, diversifying and strengthening the Company's product family even more—and to giving greater service than ever to the nation's households.

This continuing search for new products—as well as the constant improvement of existing brands—has been a major reason for Procter & Gamble's steady, healthy growth and progress over the years, in the face of the keenest kind of competition. This growth, in turn, has helped the Company become a leader in providing Guaranteed Employment, Pension and Profit-Sharing Plans and other benefits by which our employees may share directly in the Company's continuing success.

## Procter & Gamble



# WHAT MAKES CHESSIA



# SSILROAD GROW?

*One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.*

## Fuel for the fires of Europe

Today American coal shippers are literally "carrying coals to Newcastle." The great coal-shipping ports of Europe that once supplied so much of the world's fuel have now reversed the flow—the coal going in, not coming out.

This is true of Britain, Germany, France, Italy and other European countries. No longer able to supply even its own needs, Europe is becoming increasingly dependent on America's vast reserves, especially for metallurgical coal to make good steel and for quality domestic grades. Last year's export of coal was over 47 million tons—more than double the average of the last ten years—and there is every reason to believe the trend will be upward for years to come.

The recently completed additions to Chesapeake and Ohio's great yards and coal docks at Newport News on Hampton Roads, Virginia, increase their capacity to more than 30 million tons a year. Six

ships can now be loaded at a time.

To move this vast tonnage down to the sea, and at the same time serve American coal users, C&O is building \$50 million worth of new hopper cars. Its present fleet of 62,500 coal cars are in such excellent repair that over 99% are available for use at all times.

More ships are also needed, and to provide these C&O has joined with the other two coal-carrying railroads, the miner's union, and a group of mine operators in the formation of American Coal Shipping, Inc. Already 30 vessels have been chartered and negotiations are under way for 70 more, 20 of them by an affiliate, the Bull Steamship Co.

While C&O's operations have been broadened, and its traffic greatly diversified over the past few years, coal continues an important factor. And the current revival of the coal industry is one more reason why Chessie keeps growing and going.

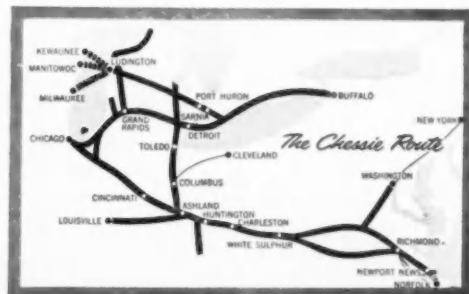


For expanding exports, C&O has just completed a \$3 million addition (A) to its Newport News coal docks.

Would you like a portfolio of pictures of Chessie and her family? Write to:

## Chesapeake and Ohio Railway

3807 TERMINAL TOWER, CLEVELAND 1, OHIO



## Resurgence in Japan

(Continued from page 515)

standard of living by increasing her exports. She must import over 20% of her food requirements and with her nearly 90 million people spread out over an area no bigger than the state of Montana, her reliance on foreign food stuff is likely to grow over the coming years. Prior to World War II, Japan imported the bulk of her rice from Indo-China, which became one of her first military objectives in World War II to insure this important Asian rice bowl. The loss of Manchuria in World War II has obliged Japan to seek new sources of raw materials. Her dependence on foreign raw materials is even more drastic. Today, fully 80% of the materials processed in her industrial plants originate from overseas. The pressure to raise her people's living standards is bound to drive all these imports up year after year. For Japan, whose industrial capacity is equal to that of many Western countries, still has a per-capita national income of only \$200 per year, lower than that of 30 other countries, many of which are far from Japan's advanced state of industrialization.

### Low Labor Output

One of her main handicaps in increasing her export sales is her very low labor productivity. Thus, despite the fact that Japanese wages are only one-tenth of those in the U.S., many American firms find it still possible to compete with their Japanese counterparts. The fact that of 11 international bids held in Southeast Asia in the second half of 1956 for the supply of heavy machinery and equipment, Japan, in each instance, lost out to lower bidders from Britain, France, West Germany or Czechoslovakia, shows to what extent some of her production methods are still behind those of other industrial countries.

However, one of Japan's outstanding business characteristics is her willingness to learn. This she is presently doing on a large scale. Many hundreds of Japanese firms have technical-assistance contracts with American,

Table II — Trade With Principal Countries, 1954-55

(Thousands of dollars)

Country	Imports		Exports	
	1954	1955	1954	1955
<b>Total</b>	<b>2,399,404</b>	<b>2,471,430</b>	<b>1,629,236</b>	<b>2,010,600</b>
United States	849,058	773,924	282,809	457,063
Argentina	60,778	22,240	48,866	79,124
Australia	117,110	177,704	28,208	55,116
Brazil	73,832	59,278	78,244	33,422
Burma	63,093	45,778	45,603	38,293
Canada	122,547	108,819	21,046	45,151
China	40,770	80,777	19,097	28,547
Germany, Federal Republic of	44,110	46,245	18,099	25,160
Hong Kong	3,960	6,169	77,265	88,062
India	51,560	77,286	43,857	84,743
Indonesia	60,172	81,157	119,715	64,715
Iran	21,449	21,999	23,461	22,422
Korea, Republic of	8,101	9,540	68,568	39,495
Liberia	241	54	25,152	52,944
Malaya	63,816	109,188	47,614	72,795
Mexico	92,276	83,972	28,787	7,377
Pakistan	36,189	47,086	56,000	43,997
Philippines	67,129	88,953	31,192	51,808
Ryukyu Islands	10,125	15,940	43,137	50,799
Saudi Arabia	110,879	97,692	2,775	6,588
Taiwan	57,088	80,879	65,938	63,828
Thailand	69,169	63,448	65,107	63,032
Union of South Africa	10,584	17,505	30,289	28,902
United Kingdom	37,105	37,916	51,125	60,765
Other countries	328,263	317,881	307,282	446,452

British and German firms. Some of these agreements involve stock acquisitions by the foreign firm of its Japanese disciple, others are in the form of loans, contracts to supply raw materials, etc. A list of such agreements between U. S. and Japanese firms reads like a Who's Who of American industry. Doubtless, these arrangements are beneficial to both the foreign company in question and the Japanese concern. However, if, as a result, Japan should ever be able to combine Japanese wage levels with Western productivity and managerial standards it would be a well-nigh unbeatable combination in the world markets.

### Suez and Japan

Whether Japan will be able to increase her exports sufficiently in 1957 depends, of course, largely on how soon the Suez Canal will be reopened. As an East-of-Suez nation Japan is only indirectly affected by the closure. For though the bulk of her oil comes from the Middle East, it is not shipped through the Suez

Canal. However, Japan is beginning to feel the pinch of the tanker shortage and the attendant rise in tanker rates. Thus, while the physical oil shortage is not expected to be significant, the increase in oil prices will be felt throughout the nation. Other imported materials, particularly steel products, have also increased in price and will remain short for some time to come. This is bound to increase the price structure of Japanese exports, which was already unwieldy in comparison with European prices before the Middle East crisis.

However, there is also a positive side to the situation, namely the possibility to fill the trade vacuum left behind by Britain, France and others; permanently in the Middle East and temporarily in Southeast Asia. Japan already is active in Egypt, trying to pick up some of the business which formerly went to France and Britain. She should have no trouble getting a good part of this business, for Egypt is desperately short of goods. The only question is what will they

(Continued on page 542)



# THE CHASE MANHATTAN BANK

HEAD OFFICE: 18 Pine Street, New York

## Statement of Condition, December 31, 1956

### ASSETS

Cash and Due from Banks . . . . .	\$2,072,851,139
U. S. Government Obligations . . . . .	1,073,035,283
State, Municipal and Other Securities . . . . .	439,038,629
Mortgages . . . . .	192,153,713
Loans . . . . .	3,731,987,213
Accrued Interest Receivable . . . . .	16,031,944
Customers' Acceptance Liability . . . . .	169,650,278
Banking Houses . . . . .	44,532,226
Other Assets . . . . .	17,666,893
	<b><u>\$7,756,947,318</u></b>

### LIABILITIES

Deposits . . . . .	\$6,927,736,057
Foreign Funds Borrowed . . . . .	5,186,222
Reserve for Taxes . . . . .	31,246,176
Other Liabilities . . . . .	38,367,918
Acceptances Outstanding . . . . .	\$189,962,709
<i>Less: In Portfolio</i> . . . . .	<u>15,165,957</u>
	174,796,752
Capital Funds:	
Capital Stock . . . . .	\$162,500,000
(13,000,000 Shares—\$12.50 Par)	
Surplus . . . . .	337,500,000
Undivided Profits . . . . .	<u>79,614,193</u>
	<b><u>\$7,756,947,318</u></b>

Of the above assets \$327,501,725 are pledged to secure public deposits and for other purposes, and trust and certain other deposits are preferred as provided by law. Assets are shown at book values less any reserves.

Member Federal Deposit Insurance Corporation

## Resurgence in Japan

(Continued from page 540)

use for payment? Obviously sterling or dollars are out, since Egypt's reserves of these are mostly abroad in blocked accounts and Japan is unlikely to be very interested in a cotton barter deal as long as it can procure surplus cotton from the U. S. without incurring foreign exchange expenditures. Still, some increase in business between Egypt and Japan is likely to grow out of the present situation.

### Southeast Asia Market Eyed

More important for Japan is her chance to take some business away from Europe in Southeast Asia. The countries of this area all have plenty of sterling, of which Japan presently has a big deficit as a result of heavy imports from the sterling area. In 1955, these countries imported \$6.1 billion worth of goods of which 30% came from Europe via Suez. Most of these consisted of capital goods, chemicals, synthetic fibers, sundries and other consumer goods. In case buying is shifted from Western Europe, North America and Japan are the most likely beneficiaries. Of these two Japan will be favored because of sterling settlements as well as freight rates and distance. In the iron and steel goods and machinery industry, Japan has little additional export capacity left until the steel shortage subsides. But it can supply Southeast Asia with plenty of cement, fertilizers and soft goods such as textiles and sundries, all of which normally come from Europe.

However, there are some difficulties involved. The biggest one is *time*. Japanese suppliers must be able to deliver now or the countries involved will wait for the reopening of Suez. This means Japanese business must find a way to overcome the big time gap between orders and actual deliveries which presently exists, particularly in the plant and equipment field. If they can do so they will still not be swamped with orders that would otherwise go to Europe. But it will give Japan a unique chance to gain a foothold in countries

Table III — Value of Japanese Trade, 1936-38 and 1946-55

Year	Value in thousands of dollars	
	Imports	Exports
1936 .....	1,049,272	1,034,853
1937 .....	1,364,658	1,200,105
1938 .....	1,071,904	1,114,765
1946 .....	305,611	103,292
1947 .....	523,542	173,568
1948 .....	684,220	258,271
1949 .....	904,845	509,700
1950 .....	974,339	820,055
1951 .....	1,995,039	1,354,520
1952 .....	2,028,193	1,272,915
1953 .....	2,409,637	1,273,843
1954 .....	2,399,404	1,629,236
1955 .....	2,471,430	2,010,600

and industries from which it has so far been excluded.

### U. S.-Japan Trade

For the United States, Japan is extremely important both as an exporter and importer. In the first nine months of 1956 it bought at the annual rate of \$760 million, which makes her our fourth largest export customer, accounting for nearly 5% of our total exports. During the same period we bought from Japan at the annual rate of \$552 million, also approximately 5% of our total imports. We thus are selling about 40% more to Japan than we buy from her. Of course, the bulk of Japan's trade deficit with us is made up by our military procurements there and the dollar expenditures of our troops in Japan.

The most important item shipped to Japan is *raw cotton*, of which Japan took \$122 million in 1955 and \$172 million the year before. Among imports from Japan, the most controversial ones are cotton fabrics, cotton shirts, scarves, handkerchiefs, etc. Together these imports amounted to about \$70 million last year. The reason why they are presently so controversial is that the entire U. S. cotton textile industry has set out to fight them, and Senators and Congressmen from New England to the Deep South are lending a hand in the fight. The latest step was a recommendation by the U. S. Tariff Commission to raise the duty rates on certain textiles,

(velveteen), by 100%. The new rates were to have gone into effect on December 24, but President Eisenhower decided to defer them for a month pending the outcome of negotiations to effect voluntary restrictions by Japan of cotton goods exports to the United States.

The U. S. government would much prefer such a voluntary agreement to an increase in duty so as to escape further accusations abroad that we preach more free trade but practice more trade restrictions. According to the latest reports, a tentative agreement has been worked out between the Japanese and the U. S. government but the information leaked out prematurely, with the result that both the Japanese exporters and the U. S. manufacturers now are protesting to their respective governments that the agreement falls far short of their minimum expectations. Generally, this could be taken as an indication that it is a fair deal for both sides. But the issue has become so important that the political lives of quite a number of U. S. Congressmen may well depend on how the controversy is settled. It has equal political importance in Japan, where it will give the new government its first chance to prove its mettle in the field of international trade relations. As far as our government is concerned, it must take into account the welfare of our domestic textile industry, our moral obligations as the world's largest and richest trading nation, and the need to give Japan a fair opportunity to sell in Western markets lest it renew its pressure for more trade with the Communist bloc.

END

### 1957 Prospects for Leading Industries

(Continued from page 506)

The outlook for 1957 is expected to register improvement over last year chiefly because operations in 1956 were disappointing. Most companies experienced deficits or declines from 1955. Earnings of International Harvester were helped by favorable conditions in the motor truck

(Continued on page 544)

# The FIRST NATIONAL CITY BANK of New York



Head Office: 55 Wall Street, New York

75 Offices  
in Greater New York

70 Overseas Branches,  
Offices, and Affiliates

## Statement of Condition as of December 31, 1956

### ASSETS

CASH, GOLD AND DUE FROM BANKS . . . . .	\$1,861,534,344
UNITED STATES GOVERNMENT OBLIGATIONS . . . . .	1,184,240,523
STATE AND MUNICIPAL SECURITIES . . . . .	393,110,101
OTHER SECURITIES . . . . .	103,286,313
LOANS AND DISCOUNTS . . . . .	3,708,099,539
REAL ESTATE LOANS AND SECURITIES . . . . .	30,358,844
CUSTOMERS' LIABILITY FOR ACCEPTANCES . . . . .	76,872,228
STOCK IN FEDERAL RESERVE BANK . . . . .	15,000,000
OWNERSHIP OF INTERNATIONAL BANKING CORPORATION . . . . .	7,000,000
BANK PREMISES . . . . .	35,916,024
OTHER ASSETS . . . . .	11,561,124
<b>Total</b> . . . . .	<b>\$7,426,979,040</b>

### LIABILITIES

DEPOSITS . . . . .	\$6,672,390,362
LIABILITY ON ACCEPTANCES AND BILLS . . . . .	\$95,640,167
LESS: OWN ACCEPTANCES IN PORTFOLIO . . . . .	15,953,896
	79,686,271
DUE TO FOREIGN CENTRAL BANKS . . . . .	26,774,500
(In Foreign Currencies)	
ITEMS IN TRANSIT WITH BRANCHES . . . . .	7,064,915
RESERVES FOR:	
UNEARNED DISCOUNT AND OTHER UNEARNED INCOME . . . . .	27,512,039
INTEREST, TAXES, OTHER ACCRUED EXPENSES, ETC. . . . .	37,769,767
DIVIDEND . . . . .	6,400,000
CAPITAL . . . . .	\$200,000,000
(10,000,000 Shares—\$20 Par)	
SURPLUS . . . . .	300,000,000
UNDIVIDED PROFITS . . . . .	69,381,186
<b>Total</b> . . . . .	<b>\$7,426,979,040</b>

Figures of Overseas Branches are as of December 23.

\$435,076,964 of United States Government Obligations and \$28,136,600 of other assets are pledged to secure Public and Trust Deposits and for other purposes required or permitted by law.

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Capital Funds \$32,801,777

We shall be glad to send a complete copy of the 1956 "Report to the Shareholders" of THE FIRST NATIONAL CITY BANK OF NEW YORK and CITY BANK FARMERS TRUST COMPANY to anyone who requests it.

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Vice-President and Cashier

## 1957 Prospects for Leading Industries

(Continued from page 542)

industry and in heavy construction. Companies lacking Harvester's diversification suffered.

Manufacturing costs have risen at a time when it has been difficult to pass along such increased expenses to customers. Competition is extremely keen, and margins seem likely to prove lower than considered desirable. Thus the group may recover to some extent, but indications hardly are reassuring for a banner year. Representative stocks have been depressed lately by tax-loss sales and could rebound moderately.

**RAILROAD EQUIPMENT** — Companies representing this traditional "feast-or-famine" industry seldom have gained investor popularity. This fact explains a comparatively modest appraisal of current prospects. Most concerns are operating at capacity and are likely to fare well throughout the year, but their past record is so irregular that investors have shown relatively little interest in short-term investments in this category. It must be borne in mind, however, that there is no such thing any longer as a railway equipment industry pure and simple. A large measure of diversification now is the rule in this field, where the leading companies have expanded into such trades as highway building equipment, electronics, nucleonics, oil-field equipment, machine tools, and a score of other lines. Indeed, a number of companies in this grouping now derive the bulk of their revenue from non-railroad lines.

Experts visualize the need for production of 50,000 to 60,000 freight cars annually to replace equipment being removed from service and an additional output of 15,000 to 40,000 cars each year for at least five years to enlarge the roads' rolling stock to a total sufficient to handle traffic without undue delay. The backlog of cars on order remains well in excess of annual productive capacity, suggesting that most companies will be able to operate at full capacity this year. Increased earnings and dividends seem logical for companies making freight

cars. Activity in diesel locomotives is less promising.

**TEXTILES** — Another industry having an erratic record appearing headed for more satisfactory operations is textiles. Consumer purchasing power continues to expand, thereby providing a favorable market for apparel and furnishings. Numerous small entities have dropped by the wayside and, although competition remains vigorous, operations gradually are being centered in stronger hands.

Prices of synthetics and cotton fabrics have been raised slightly in recent weeks, testifying to disappearance of excessive supplies in the hands of processors and distributors. Inventories in consumer channels are believed to have dwindled to respectable totals. Indications are regarded as promising for maintenance of price boosts. A higher rate of output and more satisfactory margins should enable efficient producers to show improved earnings in 1957. Stocks in this group have appealed primarily to investors familiar with the risks involved. The outlook seems promising for a better year than in 1956. **END**

## Mammoth Capital Investments Over Past Five Years

(Continued from page 509)

immense change in American business conditions facing corporate managements over the past decade. But the situation is even more complex than the earnings-sales-investment data indicate. For while the profits share of corporate sales has declined, and the investment required to earn a dollar has risen, the prices of what corporations buy with their profits have also climbed. Industrial commodities now cost 25% more than in 1948; investment in additional inventory is thus 25% more expensive. The cost of erecting a new plant building is about 45% higher than in 1948, and the cost of non-building construction — such as chemical or petroleum facilities — is up as much as 55%. The price tags on industrial and electrical machinery are about 40% higher. Relative to 1948, the purchasing

power of the earned corporate dollar is thus now about 70 cents, and 1956 profits, far from exceeding 1948 earnings, actually had only three-fourths the total real purchasing power of 1948 earnings.

### Reasons for the Squeeze

Why the decline in the share of corporate receipts carried down to net profit? First of all, it is necessary to bear in mind that business earnings are the *residual* share of receipts — the amount left over after all costs (including depreciation costs) have been met. In the earlier years of the post-war boom, there was plenty of demand for the products of industry; selling prices reflected this demand because supply was still relatively short, and the costs of doing business had not yet reacted fully to the new set of financial conditions arising out of the inflation of money supply during the war.

But as the post-war decade wore on, supply began, more and more, to catch up with the level of demand. And as it did, in one line after another, increases in selling prices became harder and harder to get. In a word, intensifying competition began to arrest prices; to exert a powerful new influence on price decisions, and to correct, with neat precision, the over-sanguine price practices of executives who had lost sight of market realities. That's how the discount house became such a factor.

At the same time that the free market mechanism was imposing more and more rigid restraints on selling prices, the level of unit costs in virtually all industries was rising ominously. Part of this rise in unit costs can be attributed to world conditions; part of it to the financial practices of a free-spending Federal government; part of it to the inevitable higher prices that must be paid to evoke further production in certain basic raw-material industries (for example, it takes higher prices for coal and non-ferrous metals to get production out of marginal, low-grade ore bodies).

But perhaps the principal component in the uptrend of costs was the pronounced secular uptrend in the cost of an hour's labor, representing, in the main, the greatly increased bargaining power achieved by unions through



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More oil . . . more fuel to run a world that turns on internal combustion engines. Here is a major challenge for 1957 . . . and it entails an obligation for all the petroleum industry.

Looming large in the effort to meet new needs is Tidewater Oil Company's great new 130,000 barrel-a-day Delaware Flying A Refinery. To utilize to the full its enormous capacity, new super-tankers are being delivered to Tidewater's already impressive fleet. To bring its new and improved products to a waiting public, hundreds of new service stations have been opened.

The end result is a major contribution to the industrial and economic might of the nation . . . and all the Free World.



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the massive and monopolistic machinery of union-conducted, industry-wide bargaining. As these bargaining practices spread from one industrial sector to another, the average annual increase in wage rates began to run far ahead of any annual increase in efficiency which could be achieved by American industry, and the unit cost of production began to spiral upward. As it rose, labor unions added the so-called escalator clause to their demands. This is widely considered to have been a significant element in the cost squeeze: Under escalator clauses, increases in selling prices to cover past increases in costs were automatically accompanied by a new cost increase, and the normal free-market mechanism for adjusting costs to prices was permanently distorted.

Trapped between the gathering resistance to price increases, and the upward pressures of costs, the manufacturing margin and to

some extent the distributive margin) in American industry has been shrinking. Higher volume of production and sales has partly offset the shrinkage in unit profit, and in a few industries has more than offset it. But higher volume has involved more and more invested capital to produce, and earnings on new investment have been small or negligible. In other words, industry has had to invest continuously and massively just to stay even.

#### Facing up to Financing

But even this is only part of the full story of the mounting squeeze in corporate financing. For the stockholder, in common with the owner of other types of property, has felt entitled to some increase in income from his investment over the post-war years, if only to compensate him for the rapidly rising cost of living. Accordingly, corporate dividend

payments have climbed from about \$7 billion in 1948 to about \$12 billion in 1956. Retained earnings of corporations (after set-asides to take care of rising replacement costs of inventory) have fallen from about \$11 billion in 1948 to about \$6 billion in 1956.

Offsetting this decline in retained earnings has been a very sharp rise in depreciation allowances — from about \$6 billion in 1948 to about \$15 billion currently. This rise reflects a number of separate influences. Among these is the rising price of capital goods: When a corporation replaces an old machine with a new one, it now pays much more for the new one, and its annual depreciation set-aside is accordingly larger. The uptrend in depreciation also is attributable simply to the fact that corporations have much more physical plant now than they had in 1948.

Finally, but by no means least, current depreciation allowances reflect a substantial amount of 5-year amortization under certificates of necessity granted corporations during the Korean war. Depreciation against these special certificates will evidently amount to about \$3 billion in 1957. But thereafter, these special allowances will decline very sharply, virtually disappearing by 1960.

What is ominous about these figures is that even with the temporary benefits of accelerated amortization, corporations have been so badly in need of cash that they have added about \$10 billion to their bank debt in the past two years, and approximately another \$9 billion in bonded indebtedness. In addition, they have drawn down their liquid asset holdings (cash, bank deposits and holdings of U.S. Government securities) by perhaps \$5 billion during 1956. The squeeze for cash among corporations already is intense: It will grow even more intense as special depreciation allowances are gradually exhausted over the next three years.

The evidence thus points to the fact that corporations are having increasing difficulty financing the current extraordinarily high level of business investment in new plant and equipment. The plans for spending these vast amounts were drawn up in the very favorable profits atmosphere of 1955; in the tightened earnings picture for 1957, they are becoming in-

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NEW ISSUE

January 9, 1957

\$125,000,000

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Dated January 1, 1957

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Price 100% and accrued interest

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creasingly anachronistic. Unless profits rise rather considerably from their current levels, business spending for plant and equipment will, of necessity, begin to subside in the near future — perhaps by the last half of 1957.

There is, of course, a moral in all this. Despite all the calumny heaped on profits, it remains true that the reinvestment of business earnings is the dominant source of energy in a free-enterprise economy. It is true that additional capital can be drawn from capital markets in the form of new stock issues. But unless business is showing a good rate of return on its present capital, it can hardly be expected to attract large quantities of additional capital.

Even today, when stock prices are very substantially higher than they were in 1948, corporations are acquiring two-thirds to three-fourths of their additional long-term capital through debt, rather than through equity securities. The reluctance to use equity financing is partly owing to the fact that while stock prices have risen, book values of corporations have risen too, and many stocks are still selling well below their book value. (For example, steel capacity sells on the stock exchange for about one-third the cost of building new steel capacity). But it is also true that given today's corporate earnings in relation to corporate investment, the return is not highly attractive.

If corporate business is to continue to provide the tremendous economic energy required to keep America's productive capacity growing — to supply more goods to more people, and to provide the vast military equipment required for defense, the squeeze on corporate earnings will have to be relieved. At the moment the outlook is that it is intensifying. The declining stimulus of profits is, in fact, likely to be a major economic issue of 1957 and ensuing years. END

### **\$121 Million Bet on America's Future by Chase Manhattan**

(Continued from page 503)

share. Total resources increased to \$7,756,947,000 on December 31, 1956, a gain of nearly \$250

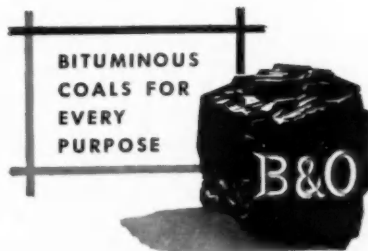


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## **BALTIMORE & OHIO RAILROAD**

million. Deposits increased to \$6,927,736,000 at the close of 1956 from \$6,789,358,000 a year earlier.

The 1955-1956 improvement at Chase Manhattan was due in no small measure to higher interest rates. A measure of the importance of interest rates to a bank such as Chase Manhattan may be gleaned from these figures for 1955, the first year of combined operation: 62% of earnings was derived from interest on loans, 23% from interest and dividends on securities, and 15% from other sources.

#### Stock Financing Completed

As 1956 drew to a close the company expanded capital by increasing stock outstanding in the amount of a million shares, which was made available to owners of then existing 12 million shares on a basis of one share for each 12 held. Stockholders paid \$47 a share (market value is above \$50.) This financing should enable Chase Manhattan to make more loans and larger loans.

Following the merger, quar-

#### Long-Term Growth Data

December 31	Deposits	Capital
		Surp. Und. Prof.
	(millions)	
1956	\$6,928	\$580
1955	6,789	526
1954	6,929	515
1953	6,424	477 <sup>a</sup>
1952	6,579	460 <sup>a</sup>
1951	6,462	444 <sup>a</sup>
1950	6,090 <sup>a</sup>	434 <sup>a</sup>
1949	5,517 <sup>a</sup>	424 <sup>a</sup>
1948	5,418 <sup>a</sup>	394 <sup>a</sup>
1947	5,618 <sup>a</sup>	387 <sup>a</sup>

<sup>a</sup>—Excluding Bronx County Trust Co.

terly dividends of 55 cents per share were paid by Chase Manhattan in the last three quarters of 1955 and the first three quarters of 1956. On October 3, 1956, the quarterly rate was raised to 60 cents and it has been maintained at that level this year on the increased number of shares growing out of the stock offering.

Yield, therefore, is liberal on this top-quality, "new-type" bank stock and the dividend is well protected. Growth potential is considerable and could, in fact,

be outstanding under first-rank banking and business management.

#### Have Insurance Stocks Passed Their Peak?

(Continued from page 525)

system is a well known story. It is not simply a matter, therefore, of marching to the insurance commissioners to request rate increases whenever a particular line goes sour; rates must be kept competitive, and it is the efficient, progressive and alert insurance company management which can keep costs down that will be able to meet the competition and still produce an attractive return for the investor. Rate increases will be forthcoming for those lines clearly in need of them—although probably not so soon as the insurance companies would wish, which means that real relief may not be had until 1958 and after—but these increases will not be sufficient to enable the traditional bound company to earn a respectable underwriting profit.

The next problem faced by the investor is to determine which of the insurance companies are sufficiently alert to meet the challenge and in most cases meaningful clues can be gleaned from a look at operations in recent years. Of the accompanying table of 30 leading fire and casualty companies will be found data on the growth of premium volume within the past 10 years, average underwriting profit margins and the volume of business in relation to capital funds. From these data a reasonably sound insight can generally be gained on the success or failure of a particular company in meeting the highly competitive conditions of the post-war period. To be sure, statistical averages can not tell the entire story; trends can also be of great significance, and one of the most important of these on which the wise investor will keep a wary eye is the direction in which expense ratios have gone in recent years. A rising expense ratio trend is a distinct danger signal, whereas a level — or better yet, declining — trend indicates success in surmounting the ever-present problem of costs.

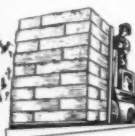
The investment income picture is one of the brighter aspects of

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first-rate management. This relatively stable source of earnings to which dividend payments are usually related continued its upward trend in 1956 aided by higher interest rates. The reverse side of the coin is, of course, the decline in the market value of bond portfolios. This factor, coupled with the small change in the level of the stock market and the poor underwriting results, will mean little or no improvement in the asset value of fire and casualty stocks, but it is fairly apparent that the market is considerably more concerned with earnings than with asset value, although it is unwise to ignore completely this latter element.

To determine over or under-valuation by the current market it is helpful to project average earning power over the next few years, and although such an undertaking is fraught with dangers and difficulties, such estimates are given on the accompanying table. These projections are based largely on the application to current premium volume of the historic profit margins — modified in some cases when it appears that fundamental conditions have been altered — the present level of investment income and the tax rates in effect today. It must be emphasized that in very few cases have these estimates in any likelihood been achieved in 1956, and the outlook for earnings in the present year remains bleak. But in estimating value and future market performance one must look ahead more than a single year.

As the poor earnings results of 1956 become more widely known and as the likely delay in rate increases protracts the period of unprofitable underwriting, it is entirely possible that we shall witness continued weakness in the market for fire and casualty insurance stocks, but such weakness will create more favorable buying opportunities than those already beginning to appear.

Turning to the life-insurance stocks, it will be observed on the accompanying table of 15 leading issues that the average price decline from 1955-56 highs — all but one were achieved in 1955 — paralleled very closely that for the fire and casualty stocks. But in seeking an explanation for the price retreat one comes up with a very different answer. Although almost no interim earnings figures are available for life-insur-

**Listed** 1929—Midwest Stock Exchange  
(formerly Chicago)  
1937—New York Stock Exchange  
1949—San Francisco Stock Exchange

**No Bonded Indebtedness**

**Shares Outstanding 12/31/56**

Common Stock, 3,738,970 shares

4% Cumulative Preferred Stock, 90,974 shares

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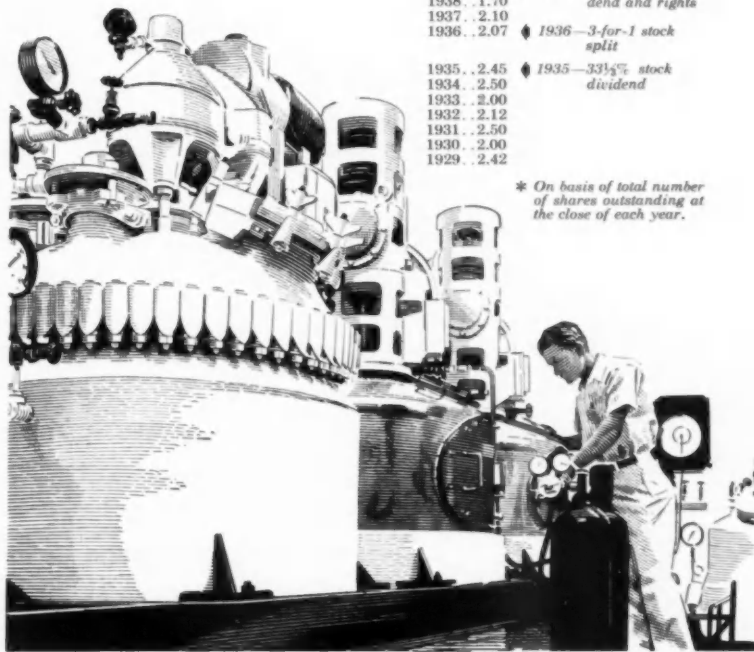
NORTH CHICAGO, ILLINOIS

**Dividends paid** ★

1956	1.80	
1955	1.80	
1954	1.85	
1953	1.80	
1952	1.95	
1951	1.95	◆ 1951—rights to buy preferred
1950	1.85	
1949	1.80	◆ 1949—2-for-1 stock split
1948	3.25	
1947	2.40	
1946	2.88	◆ 1946—2-for-1 stock split and rights
1945	2.20	
1944	2.20	◆ 1944—rights
1943	2.00	
1942	1.90	
1941	2.15	
1940	2.15	
1939	2.05	◆ 1939—5% stock dividend and rights
1938	1.70	
1937	2.10	
1936	2.07	◆ 1936—3-for-1 stock split
1935	2.45	◆ 1935—33½% stock dividend
1934	2.50	
1933	2.00	
1932	2.12	
1931	2.50	
1930	2.00	
1929	2.42	

\* On basis of total number of shares outstanding at the close of each year.

## An unbroken record of dividends



ance companies and final reports on 1956 operations will not generally be made public until February, all indications are that earnings will compare favorably with prior years, and there appears to be no reason why 1957 should not be an equally prosperous year. Why then an average decline of 28% when the Dow-Jones industrial average gave up only 4% from its high?

There can be no gainsaying the fact that 1954 and 1955 witnessed some speculative excesses before

the culmination of the long upward march of life-insurance stock prices from the low levels of the immediate post-war period. It must be remembered that the floating supply of "life" stocks is quite small. The total number of shares outstanding for the 15 companies listed on the table is less than 35 million — of which almost half are those of Travelers, and Life and Casualty of Tennessee — and perhaps of more importance is the fact that by far the greater portion of these are

held by institutional investors or wealthy families who do not actively trade the issues. With the actual volume of day-to-day transactions in life stocks relatively low it did not require a large increase in interest to send quotations up at a very brisk pace. The obvious corollary to this situation was that an equally rapid downward movement could easily materialize. As average price-earnings ratios approached 20, one had good reason to doubt that the upward price movement would continue indefinitely at its rapid pace, but it appears that growing uncertainty over the tax status of life-insurance companies was of most significance in dampening investor enthusiasm.

### Their Taxation Status

The taxation of life-insurance companies has presented peculiar problems to the Treasury ever since the inception of the income tax. This situation arises from two unique factors in the industry: The greater portion of the business is organized on a mutual or co-operative basis which raises the problem of equality of treatment under any tax formula, and unlike other industries, in which earnings on an annual basis can be determined with considerable precision, one can only estimate the earnings for a life-insurance company on the basis of numerous assumptions concerning interest and mortality rates many years in the future. Although these assumptions are usually highly conservative, only the future will determine their validity and only in the future can the true earnings of the present be determined. In the past the problem has been solved—or evaded—by taxing only investment income at various rates. This method is unsatisfactory in many respects, and the Treasury has indicated its desire to tax life-insurance companies in a manner similar to other corporations, but the problems mentioned above in barest outline—the real intricacies of the situation are bad enough for an actuary; for the layman they stagger the imagination—have so far stymied the Treasury, and to date no plan has even been placed before Congress for its consideration.

There are many who seriously doubt whether the Treasury can arrive at a satisfactory formula

for the taxation of life-insurance companies on a basis comparable to other corporations, but the fact remains that the uncertainty of the situation creates an unfavorable climate for life-insurance stocks. What the ultimate outcome will be—and one must hope that a permanent formula will be determined—it is hazardous to guess, but indications are that Congress would be most reluctant to increase by any substantial amount the tax burden of the life-insurance industry which would, in turn, raise the cost of insurance to the public and thus tend to discourage one of the greatest sources of savings.

With the exception of the uncertain tax situation, the general outlook for the life-insurance industry is an extremely bright one. The tremendous growth factor in the past is evidenced in the following table. It is an impressive record even after discounting the obvious effects of inflation, and there is every reason to believe that it will continue in the future.

	Life Insurance In Force (millions)	10 Years' Growth
Dec. 31, 1900	\$ 7,573	—
1910	14,908	97%
1920	40,540	172
1930	106,413	162
1940	115,530	9
1950	234,168	103
1956	415,000*	77 (6 yrs.)

\*Estimated by Life Insurance Association of America

The growth of our population continues, and it has been estimated that it will be close to 200 million within a decade. Disposable income continues to rise, and with increasing emphasis on security one can expect to see a larger portion of discretionary spending diverted to the purchase of life insurance. In 1940 life-insurance premiums absorbed 5.1% of personal income after taxes. By 1951, this proportion had declined to 3.4% as a result of the pent-up demand for high-cost consumer durables, but in each year since, the proportion has increased. These factors, combined with longer life expectancy, an increasing rate of return on the investments of life-insurance companies and the stabilization of expenses by the use of electronic equipment, all bode well for the life-insurance industry as a whole.

(Please turn to page 554)

Data on		Approx. Market Price 12-31-56	% Decline From 1955-56 High
Aetna (Fire) Ins.	62½	22.7%	
American Equitable	33½	26.8	
American Insurance	23½	24.4	
American Re-Insurance	24	20.0	
American Surety	17½	34.9	
Continental Casualty	80½	30.2	
Continental Ins.	46	21.2	
Fidelity & Deposit	84½	12.0	
Fire Association	42½	28.1	
Fireman's Fund	51½	33.5	
Firemen's Ins.	33½	28.7	
General Reinsurance	46½	20.3	
Glens Falls	34½	16.4	
Great American	32½	30.6	
Hanover Fire	36	32.1	
Hartford Fire	136	28.8	
Home Ins.	40½	29.2	
Ins. Co. of No. Amer.	95½	10.0	
Maryland Casualty	31	30.7	
Mass. Bonding	28½	46.3	
National Fire	88	43.2	
National Union	36½	31.0	
New Amsterdam	41	34.9	
North River	31½	38.8	
Phoenix Ins.	72	25.0	
Providence Washington	18½	39.3	
St. Paul F. & M.	46	29.2	
Springfield F. & M.	45	33.3	
Standard Accident	47½	42.1	
United States Fid. & Gty.	62½	22.4	
Average		29.5%	

1—Also

Data on		Approx. Market Price 12-31-56	% Decline From 1955-56 High
Aetna Life	172	41.1%	
Business Men's Assur.	68	24.4	
Columbian National	79	35.2	
Commonwealth Life	23½	13.9	
Connecticut General	257	17.1	
Continental Assur.	121	37.0	
Franklin Life	88½	19.5	
Gulf Life	31½	21.7	
Jefferson Standard	130	5.8	
Kansas City Life	1150	42.5	
Life & Casualty of Tenn.	20½	22.3	
Life Ins. Co. of Va.	103	39.4	
Lincoln National	209	21.1	
Travelers	68½	43.6	
United States Life	28½	35.1	
Average		28.0%	

1—Wh  
cas

Data on

## Leading Fire And Casualty Insurance Companies

Approx. Market Price 12-31-54	% Decline From 1955-56 High	Indicated Annual Dividend	Yield	Asset Value 12-31-55	Price To Asset Value	10-Yr. Growth Premium Writings	Net Premiums Written in 1955 Per Dollar of Capital Funds	10-Yr. Avgr. Underwriting Profit Margin	Estimated Average Earning Power	Price Times Average Earning Power
62 1/4	22.7%	\$2.60	4.18%	\$115.08	54.1%	132.3%	\$1.90	2.5%	\$6.20	10.0
33 1/2	26.8	1.98	5.67	76.84	43.6	49.6	0.97	1.7	3.20	10.5
23 3/4	24.4	1.30	5.50	37.96	62.2	145.8	1.39	2.7	2.05	11.5
24	20.0	1.30	5.42	43.65	55.0	254.1	1.19	0.1	3.00	8.0
17 1/4	34.9	0.90	5.07	29.51	60.1	130.5	1.51	0.7	1.45	12.2
80 1/2	30.2	1.40 <sup>1</sup>	1.74	78.70	102.3	353.3	1.95	6.1	6.00	13.4
46	21.2	2.00	4.35	71.26	64.6	156.9	0.46	4.8	3.10	14.8
84 1/2	12.0	4.00	4.73	113.79	74.3	33.6	0.49	15.7	6.55	12.9
42 1/2	28.1	2.20	5.18	79.38	53.5	237.3	1.03	2.1	4.20	10.1
51 1/2	33.5	1.80	3.50	72.86	70.7	248.1	1.27	4.7	3.95	13.0
33 1/2	28.7	1.30	3.88	68.14	49.2	174.3	1.53	2.1	4.05	8.3
46 1/4	20.3	2.00	4.32	76.18	60.7	184.9	1.09	1.4	4.05	11.4
34 1/2	16.4	1.00	2.90	51.34	67.2	178.6	1.51	4.3	3.05	11.3
32 1/4	30.6	1.50	4.65	66.09	48.8	197.1	0.79	2.7	3.25	9.9
36	32.1	2.00	5.56	77.24	46.6	165.4	0.89	2.4	3.10	11.6
136	28.8	3.00	2.21	149.65	90.9	180.9	1.17	5.8	9.30	14.6
40 1/4	29.2	2.00	4.95	79.76	50.6	101.9	0.92	2.4	3.55	11.4
95 1/4	10.0	2.50	2.62	95.46	99.8	260.7	0.63	5.5	4.95	19.2
31	30.7	1.50	4.84	41.56	74.6	209.2	1.59	5.3	3.20	9.7
28 1/4	46.3	1.60	5.57	48.54	59.2	102.9	1.79	0.4	3.65	7.9
88	43.2	3.00	3.41	151.33	55.2	208.4	1.45	1.4	6.75	13.0
36 1/4	31.0	2.00	5.52	71.08	51.0	196.1	1.27	3.0	3.90	9.3
41	34.9	1.80	4.39	83.57	49.1	200.5	2.68	0.8	4.50	9.1
31 1/2	38.8	1.40	4.44	58.61	53.7	142.9	0.56	6.6	2.90	10.9
72	25.0	3.00	4.17	139.85	51.5	218.1	0.69	2.6	5.60	12.9
18 1/4	39.3	1.00	5.33	44.62	42.0	122.8	1.83	3.0	2.60	7.2
46	29.2	1.20	2.61	41.28	111.4	207.1	1.15	6.5	3.25	14.2
45	33.3	2.00	4.44	104.00	43.3	93.0	0.96	3.5	4.75	9.5
47 1/2	42.1	1.80	3.79	88.82	53.5	187.7	1.91	4.2	6.00	7.9
62 3/4	22.4	2.00	3.19	77.41	81.1	338.1	1.77	5.4	6.30	10.0
	29.5%		4.27%		62.7%	180.4%				11.2

<sup>1</sup>—Also 1 shr. Cont. Assur. for every 100 shrs.

Data on

## Leading Life Insurance Companies

Approx. Market Price 12-31-54	% Decline From 1955-56 High	1955 Adj. Earnings Per Share	Price Times 1955 Earnings	Ordinary Insurance In Force 12-31-55		Group Insurance In Force 12-31-55		Industrial Insurance In Force 12-31-55	
				% of Total	10-Yr. Growth	% of Total	10-Yr. Growth	% of Total	10-Yr. Growth
172	41.1%	\$ 14.85	11.6X	21.8%	62.9%	78.2%	295.8%		
68	24.4	5.74	11.8	84.4	301.4	15.6	1		
79	35.2	6.28	12.6	75.7	76.1	24.3	809.9		
23 1/4	13.9	2.09	11.1	57.3	271.1	7.0	1	35.7%	157.5%
257	17.1	19.32	13.3	39.1	149.2	60.9	550.6		
121	37.0	5.84	20.7	41.3	131.8	58.7	726.7		
88 1/2	19.5	4.39	20.2	100.0	462.6				
31 1/2	21.7	2.03	15.5	53.3	252.4	14.6	1	32.1	65.5
130	5.8	6.56	19.8	73.4	155.8	16.1	1	10.5	91.7
1150	42.5	110.37	10.4	99.9	83.9	0.1	1		
20 1/2	22.3	1.41	14.8	44.1	259.2	3.6	1	52.3	77.7
103	39.4	9.15	11.3	50.9	233.6	12.2	1	36.9	52.4
209	21.1	16.85	12.4	87.6	246.6	12.4	1		
68 1/4	43.6	6.29	10.9	27.5	47.4	72.5	264.5		
28 1/4	35.1	2.16	13.1	49.2	285.1	50.8	1,024.0		
	28.0%		14.0X						

<sup>1</sup>—Where less than 20% of insurance in force is group, the percentage growth figure is omitted since it is apt to be misleading because in most cases the writing of group insurance is relatively new and the percentage growth is not comparable to that of the older companies in the field.

## Publishers Burdened By Heavier Costs

(Continued from page 523)

During 1955, Curtis Publishing, in addition to opening a number of new advertising branch offices, increased sales, merchandising, promotion and related personnel, and stepped up, by a considerable measure, its advertising and promotion schedules.

These actions were taken in keeping with long-range plans to increase advertising revenues and involved expenditures that were \$6 million higher than in the previous year. Naturally, the impact of these increased expenses had a bearing on 1955 earnings, net profit for the year dropping to 40 cents a share on the common stock from 52 cents a share for 1954. Indications are, however, that plans laid in 1955 are beginning to pay off, net income for the first nine months of 1956, despite a third-quarter deficit, amounting to 69 cents a share for the common stock, compared with 31 cents for the comparable 1955 period.

### Newspapers in Like Fix

Newspapers, which have problems of a similar nature, also have felt the gaff. Costs have skyrocketed over the years, forcing newspapers to close their doors or seek combinations. The merger trend in newspapers was at an accelerated pace long before it took hold in industry. In a city such as New York, the three famed Pulitzer papers, the morning, evening and Sunday "World," were sold to Scripps-Howard. Thus, "The Telegram" became "The World-Telegram." Some years later the fine old "New York Sun" was absorbed to make "The World-Telegram and Sun."

Across the river in Brooklyn, home of nearly 3 million people, all of the four great dailies have fallen by the wayside. Brooklynites now depend on New York City papers for their news.

The last of Brooklyn's great dailies, the nationally-famed "Eagle," quit the field during a wage strike conducted by its unionized editorial employees. Yet it is a fact that the printing and publishing field's wages average around \$95 a week. Only the

transportation-equipment and oil-coal workers do substantially better than that. Not only is the wage level in publishing around the top, but it is a field in which mechanical workers get away with featherbedding on a vast scale—a system that adds non-essential workers and fattens payroll. This is an industry in which unions are outstandingly strong.

If publishers have but a negligible control of their wage factor, they have even less say over their paper costs. Newsprint, as an example, has risen from about \$41 a ton in 1934 to a current price of about \$130 a ton. Still another boost will go into effect this year if other paper producers follow the lead of Abitibi Paper Co.

### The Investment Viewpoint

To the many subscribers who have written us regarding publishing shares since the passing of "Collier's" and "Woman's Home Companion," we call attention to the table of corporate leaders in this field accompanying this story, which shows that this is scarcely a boom industry. Aside from such a company as McGraw-Hill, with its heavy emphasis on "service" magazines, we believe the issues to be highly speculative.

Many of the companies, in addition to the rising-costs handicap, are feeling strong competition from television. TV not only vies with them for subscribers, but bites heavily into their ad dollar.

No ready solution to their problems is in sight.

—END

	1952	
	Gross Revenue (thousands)	Net Income (thousands)
Conde Nast Publications	\$ 22,584	\$ 910
Crowell-Collier	68,067 <sup>a</sup>	76
Curtis Publishing	163,003	4,404
Esquire, Inc. <sup>a</sup>	14,918	260
Hearst Consolidated Publications	183,780	1,604
McCall Corp.	43,567 <sup>a</sup>	1,317
McGraw-Hill	62,345 <sup>a</sup>	3,276
Time, Inc.	156,786	7,750

<sup>a</sup>—Fiscal year ends March 31.  
<sup>b</sup>—Deficit.

<sup>c</sup>—Estimated.  
<sup>d</sup>—Nine months to Sept. 30.

## 1957 Prospects for the Rails

(Continued from page 518)

new Ford assembly plant at Milpitas, California, benefits from popularity of the Ford car this year. The 2% annual stock dividend, which was inaugurated in 1956, is worth about \$1.25 per share at current market prices.

Two issues which offer above-average income returns from dividend rates covered twice over by earnings are Chicago, Rock Island & Pacific (yield of 7.3%), and Southern Pacific (6.7%). The Rock Island, with one of the youngest and most aggressive managements in the industry and with a modern and efficient transportation plant, is bending every effort towards obtaining new sources of industrial traffic to offset this road's hitherto subnormal traffic trend.

Basic operating problems such as heavy terminal and switching expenses and extremely steep grades have prevented the Southern Pacific from living up to earnings expectations in the post-war period, but the almost phenomenal industrial growth of the territory served, particularly California and the Southwest, the system's large land holdings with their oil and mineral potentialities and the large savings expected from completion of dieselization and yard programs are favorable factors over the longer term.

An issue which should be watched for long term speculative purposes is Baltimore & Ohio, one Eastern road which we regard as having interesting earnings and

# Statistical Data On Seven Leading Publishers

	1953			1954			1955			1956		
	Gross Revenue (thousands)	Net Income	% Net Income to Revenue	Gross Revenue (thousands)	Net Income	% Net Income to Revenue	Gross Revenue (thousands)	Net Income	% Net Income to Revenue	Gross Revenue (thousands)	Net Income	% Net Income to Revenue
\$ 910	\$ 309	\$ 752	3.2	\$ 23,828	\$ 811	3.4	\$ 24,004	\$ 801	3.3	\$ 18,703 <sup>T</sup>	\$ 238 <sup>T</sup>	1.3
76	310 <sup>T</sup>	4,010	—	64,766 <sup>S</sup>	2,420	—	70,900 <sup>T</sup>	774	1.1	35,974 <sup>T</sup>	2500 <sup>S</sup>	—
4,404	774	4,868	2.8	173,366	4,517	2.6	179,828	4,081	2.3	134,003 <sup>T</sup>	4,375 <sup>T</sup>	3.3
260	164	119	.8	15,737	73	.5	14,889	151	1.0	16,175	159	1.0
1,604	670	2,024	1.0	190,927	340	—	207,556	2,639	1.3	108,433 <sup>T</sup>	1,073 <sup>T</sup>	1.0
1,317	845 <sup>S</sup>	1,175	2.5	49,400 <sup>S</sup>	1,335	2.7	53,779 <sup>S</sup>	1,062	2.0	46,117 <sup>T</sup>	758 <sup>T</sup>	1.6
3,276	646 <sup>S</sup>	3,550	5.2	70,018 <sup>S</sup>	5,924	8.5	76,653 <sup>S</sup>	6,284	8.2	65,611 <sup>T</sup>	5,893 <sup>T</sup>	9.0
7,750	449	8,144	4.8	178,156	8,057	4.5	200,182	9,196	4.6	110,960 <sup>T</sup>	8,627 <sup>T</sup>	7.8

<sup>T</sup>—Six months to June 30.

<sup>S</sup>—Excluding \$15,113,700 capital gain after taxes.

dividend potentials. The B & O made an excellent showing in 1956, its credit position has been strengthened steadily by debt reduction and refunding and traffic growth will continue to be stimulated by increasing commercial use of the large reserve of high quality bituminous coal in the Gauley field of Northern West Virginia and by the growing industrialization of the lower Ohio River valley from Huntington to Wheeling, West Virginia, the "American Ruhr."

Missouri Pacific Class "A" stock strikes us as a "special situation" having possibilities over the next two to three years. Following emergence from a twenty-three-year-old reorganization last March, the system declared an initial annual dividend of \$2 per share last April 11 and, in view of the sharp earnings improvement in 1956, there appears to be a good chance that this payment will be raised to \$3 next April. Consummation of the reorganization has resulted in a substantial reduction in previously generous maintenance outlays and as time goes on the effect of more vigorous traffic solicitation should appear in the revenue trend.

Seaboard Air Line common appears to be a particularly depressed issue at the present time and it is our feeling that it can be held under observation for future possibilities. This stock is currently selling 20% below its 1956 high of 44¾ and yields 6.9% on the \$2.50 annual dividend rate, which is well covered by estimated 1956 earnings of \$4.50 per share. This deflated market level reflects heavy liquidation by institutions which had bought the stock at much lower prices and concern as to the slump in the

road's important phosphate rock traffic (11% of freight revenue and 20% of tonnage in 1955) due to depressed conditions in the fertilizer industry. However, in our opinion, due consideration is not being given to Seaboard's growth trend in traffic and earnings over a period of years, the efficient condition of the property, its strong finances and the operating savings anticipated from large capital expenditures now underway.

—END

## COLUMBIA PICTURES CORPORATION



The Board of Directors at a meeting held January 9, 1957, declared a quarterly dividend of \$1.06¼ per share on the \$4.25 Cumulative Preferred Stock of the company, payable February 15, 1957, to stockholders of record February 1, 1957.

A. SCHNEIDER  
First Vice-Pres. & Treas.

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In our business you naturally meet all kinds of investors—and some of them can be pretty stubborn about their stocks.

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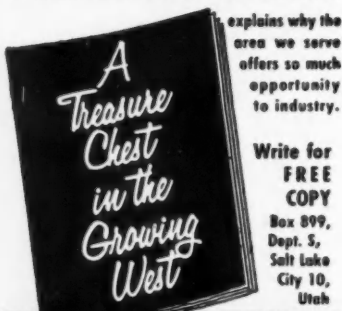
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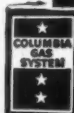
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The Board of Directors has declared this day  
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This is a regular quarterly dividend of



**25¢ PER  
SHARE**

payable on February 15, 1957,  
to holders of record at close  
of business January 19, 1957.

H. Edwin Olson

Vice-President and Secretary  
January 3, 1957

**THE COLUMBIA  
GAS SYSTEM, INC.**

**AVISCO**

AMERICAN  
VISCOS  
CORPORATION

### Dividend Notice

Directors of the American Viscose Corporation at their regular meeting on January 9, 1957, declared a dividend of fifty cents (50¢) per share on the common stock, payable on February 1, 1957, to shareholders of record at the close of business on January 22, 1957.

**WILLIAM H. BROWN**  
Vice President and Treasurer

## Have Insurance Stocks Passed Their Peak?

(Continued from page 550)

But, as is the case in most other fields, discrimination is called for on the part of the investor. Without minimizing the importance of the investment and other functions in the life-insurance industry, it must be kept in mind that sales and the resulting increase of insurance in force are the most important factor from the point of view of the stockholder. For it is the "inventory" of insurance in force which is the source of continuing premium income. It is well therefore to look at the growth in recent years of the line or lines of insurance in which a particular company specializes to gain some idea of the future trend of earnings. The investor who purchases the stock of a life-insurance company with a continuing rate of growth above that of the industry as a whole at a reasonable multiple of current earnings should fare well in the future. **END**

## Bank Stocks as Investments Today

(Continued from page 521)

of the larger banks was 4.36%, against 4.28% in January, 1956.

So much for the banks' performance in the year just ended. But what about this year? The answer, in all probability, is "more of the same." Here's why.

In the first place, consider the basic determining factor: the business pace. On that score, the consensus is that this year will top last year's record \$412 billion gross national product by 4% or 5%. Forecast U. S. Secretary of Commerce Sinclair Weeks at the year-end: "Foreseeable trends indicate that good times for the American people should continue through the entire 12 months with over-all employment, income and production higher than this year. In view of the economy's present high pace, the rate of expansion may not be so fast as now, but, barring grave emergency, the economy as a whole should set new records."

That adds up to heavy prospective demand for credit. An-

other year of business boom also indicates the Federal Reserve will likely be following a policy of credit restraint to prevent inflationary excesses from developing. With demand for money high and with a lid on the supply to be furnished by the Central Bank, the pressure will be on the side of firm, if not rising, interest rates.

There's always the possibility, of course, that the forecasters will be wrong in their economic predictions. Maybe business won't be as good as they expect — although there is no indication of a reversal yet. Maybe interest rates, which would react quickly to a smaller demand for credit resulting from a slowdown in business activity, will ease up. While recognizing that these are possibilities — the balance between inflation and deflation is considered delicate by some respected economists — no one is looking for a depression around the corner — or even a serious recession like the 1938-39 variety. And, even if interest rates should decline, bank earnings could be expected to continue to be good. That's because there is always a time lag in the effect of changes — up or down — in interest charges. The higher rates apply only to new loans and to renewals. The full effect of the heavy volume of loans at higher rates in 1956 has yet to be felt in 1957.

### New Element in Appraisal

A factor that should not be ignored in assessing the bank-stock outlook involves the effect of a free-money market on bank earnings. Up to now, the market

### Changes in Interest Rates and Bond Yields During the Past Year

	Jan. 1956 (%)	Jan. 1957 (%)
<b>MONEY RATES</b>		
Prime Commercial Loans	3.50	4.00
Commercial Paper, 4-6 mos.	3.00	3.63
Bankers Accept's, 90 days	2.50	3.38
Treasury Bills, 90 days	2.49	3.26
Fed. Reserve Discount Rate	2.50	3.00
<b>BOND YIELDS</b>		
AAA Corporate Bonds	3.14	3.82
Long-term U.S. Bonds	2.96	3.38
High-grade Municipal Bonds	2.71	3.44

(Please turn to page 556)

# How Forecast Profits Increased...



## Despite The Market Decline



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On April 6, 1956 when the market reached its highest point for 1956, Boeing closed at  $81\frac{3}{8}$ —while General Dynamics closed at  $61\frac{1}{8}$ . Despite the decline that has taken place since then, Boeing has appreciated  $45\frac{7}{8}$  points—while General Dynamics has gained  $26\frac{1}{4}$  points.

Boeing Airplane was recommended to subscribers at 46—prior to the 2-for-1 stock split in 1954 which marked our cost down to 23. On August 6, 1956, Boeing was split again, 2-for-1, reducing our cost to  $11\frac{1}{2}$  for the new shares which are selling at  $63\frac{5}{8}$ —representing 453% enhancement. Cash dividends of \$1.50 seem assured for a 13% yield on our original buying price.

Also, we recommended General Dynamics in April, 1954, at 43. It was then split 2-for-1, marking our cost down to  $21\frac{1}{2}$ . It has recently again been split 3-for-2 further reducing the cost to less than  $14\frac{3}{8}$ . General Dynamics has now reached  $58\frac{1}{4}$ —to show 305% gain from our original recommended price. The current dividend yields 10.2% on our cost.

In August, we selected three new purchases among the aviation stocks and these have already advanced 30 points. We believe our new and coming buying advices will help us to maintain our outstanding profit and income record of the past three years.

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JANUARY 19, 1957

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## Bank Stocks as Investments Today

(Continued from page 554)

for bank shares has not acknowledged this fundamental development, which should act to increase the profit margin of the banking business.

For more than 20 years, interest rates were low—either because of lack of demand for money, as during the 1930's, or because of official Government policy which forced interest rates down by pumping up the money supply. It wasn't until 1951, when the "Fed" stopped supporting Government bonds at par, that a really free money market began to function. Interest rates were allowed to rise according to the free play of market forces. This marked the end of "cheap money" as a Government policy. In pursuit of sound money, the Federal Reserve Board has been letting interest rates move up—providing an incentive to savers and discouraging marginal borrowers. This has become especially evident in the past year and a half.

Various long-run economic surveys, looking ahead 10 years and 20 years, are unanimous in predicting growth for the U. S. economy. Most of them also anticipate shortages of capital in relation to the need, if living standards are to continue to rise. Present rates of saving just won't be high enough, according to the economic seers.

This means that demand for credit in the years ahead probably will exceed supply, exerting upward pressure on rates charged by lenders. In a free money market that would seem to indicate firm money rates over the long term. It should be remembered that while today's rates are high compared with the earlier post-war period, they are low compared with the years prior to 1930.

This writer recently queried one of Wall Street's shrewdest and best-informed observers as to his thoughts about the impact of a free money market on bank operations. His answer should interest anyone with an eye out for sound investments:

"The market prices of bank stocks, comparatively speaking, are substantially below the mar-

ket prices of other high-grade stocks, which largely benefited from great actual and prospective growth in a rapidly expanding economy and an unrestricted earning capacity. This comparative pricing is based on conditions no longer existing and premises no longer valid and should, therefore, over a period of time, tend to be modified with bank stocks seeking higher levels."

To sum up, the nation's banks, as a whole, completed a record year in 1956. This year, from all indications, they appear headed at least as high—probably higher. The outlook for bank earnings and dividends, based on expected heavy demand for credit and firm interest rates, seems excellent. For the New York banks, for instance, the outlook is for an increase in operating earnings of from 10% to 15% from 1956 levels. Nineteen fifty-seven, in short, promises to be a big year for banks—and their shareholders.

END

## For Profit and Income

(Continued from page 527)

year ended last August 31, against \$1.54 in the prior year. A current-year gain close to 10% seems likely, despite nearby equity financing which should suffice for some time to come. Close to 40% of 1957 dividends will be tax-exempt; and a substantial portion is expected to remain so through 1960. At present price of 26½, the gross yield is around 5.2%. The stock is a sound buy for income and long-range appreciation.

### Stock Groups

In recent trading sessions up to this writing, stock groups faring better than the market have included drugs, baking, food brands, dairy products, department stores, machinery, office equipment, natural gas, electric utilities, sugar and tobaccos. Following recent strength, aircrafts, oils and steels currently are meeting some profit-taking. Others not faring well at this time include automobiles, airlines, building materials, chemicals, aluminum, coppers, paper and textiles.

### Paper

Most paper stocks are far down from their highs. Consumption

remains at a generally high level, but new orders have slipped recently. The basic trouble is overcapacity; and it will take an extended time for growth of demand to correct it. We continue to think that the stocks are among those with tangible reasons for declining further during the current year.

END

## Keeping Abreast of Corporate Developments

(Continued from page 536)

per share, up from \$3.18 for preceding year. Dividends of \$2.80 per share were paid in 1956, compared to \$3.18 (adjusted for 2-for-1 split on December 20, 1955) for 1955. Fiscal year sales were \$121 million in 1956, \$81.9 million in 1955. Operating income in fiscal 1956 was \$23.7 million, compared to \$13.4 million for the year earlier.

## As I See It!

(Continued from page 495)

put forth every effort to help them overcome their terrific economic setbacks, or lose control of them. It has been obvious for a long time that the satellite nations have been stymied by Russian exploitation, for the Molotov plan for East European cooperation forced each country to subordinate its economy to the needs of Moscow.

This, in the main, is the reason for the economic slump in Eastern Europe during the time when Western Europe was making great gains.

Viewed in the light of Russia's inability to supply the economic and financial-aid requirements to support her political efforts in this area, her threats and bombast have a hollow sound. The shrill voices of Pravda and Tass reflect the high tension of the Russian leaders caught in a trap of their own making. The British-French-Israeli adventure has definitely shown up their undercover manipulations in Egypt and Syria. And now we have the opportunity to destroy their influence and domination, and secure Western Europe. If we act firmly in this time of her weaknesses, Russia never will gain control of the oil.

A revolt in Czechoslovakia would immobilize her source of arms supply—and that country is ripe for revolt. This would be a great blow to the Kremlin. The Soviet has been experiencing a dearth of skilled manpower and, for the past two years, has been scouring the world, making all sorts of promises to induce Soviet citizens to return.

This is our opportunity to stop Russia. Disintegration of the Soviet system has set in. Let's help it along.

Let us also call the bluff of Mid-east potentates who have been trying to play off Russian power against ours. If we will, then there awaits us a victory that will serve the cause of the entire Free World.

## State Of the Union

(Continued from page 499)

tory judgments."

Every ballot analysis shows Mr. Eisenhower, in November, received the largest Negro bloc vote of any Republican candidate in United States history. He has the incentive to push through a civil-rights program. He will have backing in his party, plus the even more vocal effort of the "liberal" leadership. A determined group of Democratic Senators, led by Humphrey of Minnesota, will continue to strive for rules changes eliminating filibusters. Failing that, as they must, they will concentrate on civil rights, the real objective of proposed rules change.

It isn't possible to find in the President's message outright declaration of legislative war on racial discrimination. This is no sign of lagging interest. He is being consistent: He has steadfastly held that racial discrimination is wrong and must end, but that needed legislation must not be sacrificed to the attainment of that end. "Riders" on housing or other bills that are taboo at the White House; yet this technique seems to be the most available door. And if President Eisenhower slams that door shut to protect housing and other bills, he will have trouble on his hands. The alternative could be loss of some legislation. He says in his message that he has decided his course: Civil rights must win or lose on its own.

The Democratic election plat-

form, adopted by Majority Leader Lyndon Johnson as the "agenda" for his party in this session of Congress, calls for no abridgment on the right to vote, and the right to acquire education in the public schools. There is no suggestion that these are seriously abridged today, except in states represented by Democratic Senators. To expect them to vote to eradicate beliefs and practices which are ingrained in the social and political history of the sections they represent, is to overlook reality and precedent. The President's attitude and that of Congress seems to sustain this prediction: Civil-rights law will continue to be written in the form of court decrees, not in legislative enactments.

The President's message tells Congress that the farm program the Administration instituted, with the aid of a majority of the membership, needs more time but is working well. In that portion of the message he accepts the challenge of the Democratic pledge of 90% price supports for basic commodities, income protection for producers of perishables, and a food stamp plan. He dubs these things as causes rather than cures of agricultural ills, for the most part.

It is noteworthy that many Democrats who will sit in the present Congress went along on the Benson Plan (the Administration program) when it was on Capitol Hill last year. Quite a few of them ignored the 90% support pledge in their re-election campaigns. His opposition party is largely a Big-City bloc in which farm relief isn't considered a major poser. The President seems on safe and winning ground when he stands pat on his farm program and the message echoes that feeling of security.

The Democratic program calls for tax cuts for lower-income persons, relief for small business and closing of loopholes. He suggests he's willing . . . only if it's demonstrated that taxes can be cut without unbalancing the budget, and providing the action comes after the national debt has been trimmed down. The passing treatment the message gives to this top-level subject shows he expects Congress to "go along" And he has good reason for that attitude: Democrats on the Ways and Means Committee have been

most outspoken against reductions now. They, too, prefer balanced budget and payment on the debt. With respect to "loophole closing," definitions are lacking. Everybody, including the President, is for it; nobody seems able to identify a "loophole."

The message is light on specifics. The President explains the conscious omission of details by listing the special reports that will be forthcoming.

However the broad exposition of policy comes as a reiteration rather than a revelation. It is to be read in the light of the President's performance with respect to similar situations in the past. It cannot be regarded as a pleading document. It "tells" Congress what it should do.

—END

## Answers to Inquiries

(Continued from page 534)

Carolina. It acquired in 1953 Hinde & Dauche Paper Co., manufacturer of corrugated boxes.

Record level of sales, earnings and production was attained by West Virginia for fiscal year 1956, ended October 31.

Net sales amounted to \$187,621,000, compared with \$176,237,000 in 1955, an increase of more than 6%.

Net income came to \$16,331,000, a rise of about 4% from earnings of \$15,724,000 reported in 1955. Earnings after taxes were equal to \$3.19 per share on 4,972,458 shares of common stock in 1956, compared to \$3.08 per share on 4,934,888 shares of common stock for the previous year.

Capital improvements carried out by the company in 1956 called for expenditure of \$18.6 million, bringing to more than \$130 million the total spent for plant improvement and expansion over the past 10 years.

The company's program of continuing plant renewal and improvement is well-conceived from an engineering and technical standpoint and well-balanced as to other facilities and available resources. This also calculated to arrest increasing costs and provide greater product flexibility needed to meet the requirements of customers and markets. Thus, the company looks to favorable operating results in 1957.

Current quarterly dividend is 40 cents per share.

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